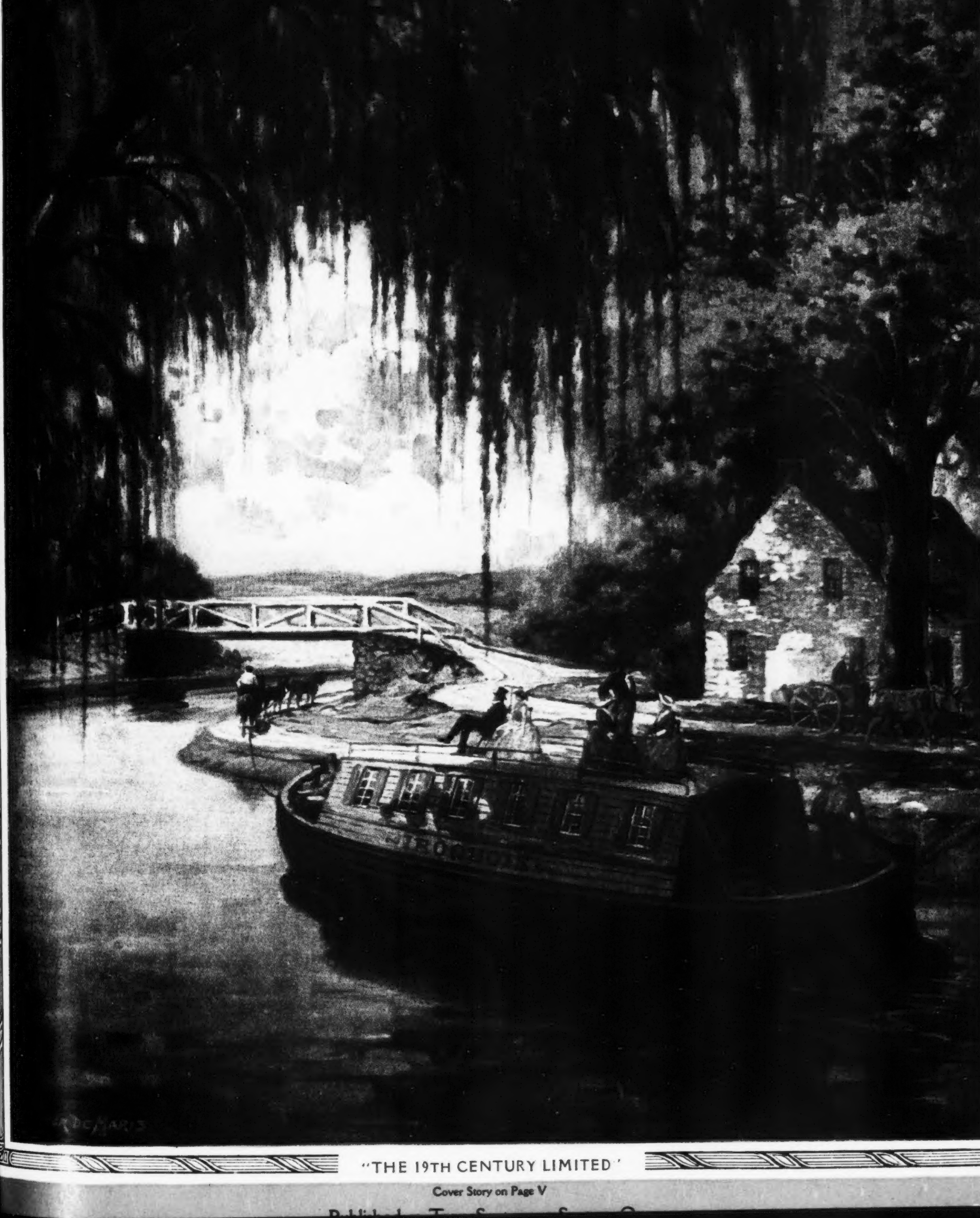
OCTOBER, 1930

AMERICAN BANKERS Association JOURNAL



"THE 19TH CENTURY LIMITED"

Cover Story on Page V

AMERICAN BANKERS
Association
JOURNAL

F. N. SHEPHERD, *Publisher*

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CONTENTS FOR OCTOBER, 1930

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The Nineteenth Century Limited

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

IT is almost incredible, in these times of rapid transportation, that the little canal which is the subject of this month's cover illustration was the factor that first gave to New York City its commercial supremacy. It is also difficult to believe that along this canal there should spring up, much as trees grew on its banks, a long line of cities and villages, and astonishment increases when it is recalled that the waterway was but four feet deep as it wound its placid course across the State of New York from Lake Erie to the Hudson River.

But its importance in transportation and its seemingly insignificance in depth are historical facts, albeit hard to accept when we recall that New York City has a population of 6,981,927, and that some men can fly across the continent from the Atlantic to the Pacific in approximately half a day!

We have a fashion of speaking of economic factors: Here is an economic factor of interest at a time when a new system of transportation is being rapidly developed. The Erie Canal, derisively called in its time "Clinton's Ditch" and "Clinton's Folly" because Governor DeWitt Clinton foresaw its need and its value, was opened for its full length in 1825, to furnish water transportation between the Great Lakes and the Atlantic Seaboard. It antedated real highways, antedated the railroad system across the state, and gave a valuable means of freight transportation for the then undeveloped country.

Its projectors and supporters were far-seeing men. The commercial benefits that came from it amply justified their hopes. The canal provided work and created business, directly and indirectly, both within and without the state. From time to time the canal was deepened and improved and for many years held its own notwithstanding the development of the railroads—that is, it held its own for freight business. Passenger business it could not hold, for the speed (if such the pace could be called) was tediously slow and a whole day's journey accomplished only a few miles.

THE "Nineteenth Century Limited," nevertheless, was a great advance in transportation in its time, and people enjoyed it and were proud of it just as we of today take satisfaction in our limited trains, our "leviathans" of the deep and our achievements in aviation.

Considering the progress in transportation that has been made since people were actually thrilled over the opening of the Erie, and were making a wonder of such an engineering feat, what may not be expected fifty years hence in transportation?

This Month's Journal *and* Your Own Bank

PRESIDENT HOOVER, in this month's JOURNAL, says to the bankers of America:

"You have already done much, and at this juncture the responsibility of those in control of money and credit is very great. Without faith on your part and without your good offices, the early return to full prosperity cannot be accomplished. This depression will be shortened largely to the degree that you feel that you can prudently, by counsel and specific assistance, instill into your clients from industry, agriculture and commerce a feeling of assurance."

Almost a year has passed since an avalanche of selling struck the stock market and the banks of the country were called upon to assume an extraordinary burden. They faced a problem without exact precedent. Shares in America's soundest industries were being offered for sale with no one willing to buy. They knew that it would be futile and dangerous to meet the selling movement head on. Instead they agreed on a policy designed, as far as the purchase and sale of securities were concerned, to prevent "air pockets" from forming in the list. That is to say, they agreed to make no attempt to peg even pivotal issues but to see, merely, that there was an adequate cushion of bids just under the market. That was the first of the accomplishments in President Hoover's mind when he said: "You have already done much."

FROM this distance the comments of economists and Government officials at the time of the crash make incredible reading because so few linked the drop in quoted security values with the unmistakable signs of business recession which appeared after the June peak. For more than three months practically every trade index had been repeating, with clear, uncontradictable emphasis, the same story: that production had outrun consumption, that incomes pledged for installments a year or two ahead could not be pledged again, and that a catching up period was at hand.

When the final record of the year 1929 in American finance is written one fact must stand forth, and that is that the banking system "weathered the storm," in Mr. Lonsdale's words, "and has emerged in sound condition to face the conflicts of the future." Discussing "The Period of Adjustment," Mr. Lonsdale describes today's bank problems against a panoramic background of past and future.

THE JOURNAL this month is a valuable textbook of current banking and economic information. It reports the Annual Convention of the American Bankers Association in Cleveland, a meeting notable for interesting and distinguished speakers, including the President of the United States. Its program was unusual in many ways and reflected clearly the high place in the economic life of the nation and of the world, now occupied by the American Bankers Association.

Subject matter runs the entire scale from the broad, inter-continental view of President Hoover to detailed discussions of the service charge in country banks. The full text of the President's address is published in this issue as a document of permanent interest to business men. Another valuable contribution to the general fund of banking knowledge is made by Dr. Hans Luther, president of the Reichsbank, in an article discussing the extraordinary domestic and world economic problems faced by Germany. America's interest in the German outlook is direct and inevitable. Germany has borrowed huge sums abroad and must borrow more to pay her debts. The question is: how long can such a process continue? And if there is to be further borrowing, how can it be directed into productive channels and thereby become self-liquidating?

RUDOLF S. HECHT, under the title "Problems We Bankers Must Meet," discusses the status of banking today, what things are needed and how to get them. He bases his interpretations and views largely of the findings of the Economic Policy Commission.

DAN V. STEPHENS fires a volley at free services. He says that the average bank customer makes no objection to paying for accommodation when he realizes that an institution failing to collect for legitimate services often weakens itself and becomes less of an asset to the community. He relates the story of a banker who attempted to get his colleagues to cooperate with him in the matter of establishing service charges on unprofitable accounts. When they declined, he said that he would go ahead anyway and would advise any customers who objected to the charge, to take their accounts to one of the other banks in town. They decided to cooperate.

FRED W. SARGENT has special qualifications for discussing the "Drift Toward Confiscation," having entered the railroad world via the practice of law. He says that there has grown up in recent years a class of legislation tending to confiscate private property in a manner not reachable in the courts. If a law were passed, he declared, destroying a legitimate business, the public would be shocked; but when the same thing is accomplished through taxes or Government competition, no objections are allowed.

FRED I. KENT, in "The World in Transition," furnished the Convention with well considered views on the international aspects of current business recession. "Today," he says, "great groups of people in many lands are in the early stages of education—that period wherein they are a menace to themselves and to all others." To this he ascribes the fact that "Government has thereby fallen into incompetent hands in many quarters," and adds, about our own political situation:

"See what the direct primary has done to the Senate of the United States."

THORNTON COOKE accomplishes a difficult thing in his crisp analysis of the whole question of taxation. He gets down to fundamentals on a problem long and deeply buried under stubborn traditions and questionable theories. He believes that the success of the Federal Government and the governments of several important states with the income tax answers the question: What is the best way to reach the great mass of intangible property whose owners have not made suitable contribution to the public purse?

JOHN W. BARTON discusses banking laws, groups, branches, the relation of national and state banks, the present era of change, Federal Reserve System earnings, the bankers' position toward taxation, demigoguery in politics, the American standard of living, the tariff, the responsibilities of business leaders and the need for greater courage. These subjects are linked into a valuable composite picture.

SWINGS of the economic pendulum, or business cycles, have been explained in a variety of ways. They remain a fascinating subject for inquiry. Alexander D. Noyes, Financial Editor *New York Times*, discusses the "Cycle of Prosperity" from the vantage point of having observed events at the lower end of Manhattan during a period of forty-six years. In 1884 he went from the city staff of the New York *Tribune* to the editorial staff of the New York *Commercial Advertiser* and from that time forward he engaged, without interruption, in the task of telling the public what transpired daily in finance, industry and commerce. He discusses 1929's "new era" and what brought it to a sudden end. The old-fashioned cycle reappeared, he says, after its complete annihilation had been heralded and celebrated.

LEONARD P. AYRES, vice-president of the Cleveland Trust Company, examines an important phase of the great tidal movements in trade under the heading "Savings and Cycles."

Austin McLanahan, in an analysis of the special investment problems of savings banks says that the best results can be achieved by investing in first class, short term commercial paper, bankers acceptances and by making well margined security or first mortgage loans. He chooses stability as the first end and aim of a sound investment policy. He considers it strange, moreover, that where banks are feeling keenly the competition of building and loan associations, they do not enter the field of making mortgages.

Robert B. Umberger discusses personal loans with emphasis on their limitations.

"I CHALLENGE the statement," declares Craig B. Hazlewood, "that the unit banking system has failed. It has not failed. It is not the system but the management that needs attention." Mr. Hazlewood sees the whole picture and not just a section of it. He talks about management in a way that brings this most important question into full view. He says that the chief reason one bank succeeds and another does not lies in skilled or unskilled management. He predicts the continuance of independent units, the appearance of larger units, the development of local branches and some extension of group banking.

THIS issue contains many other articles whose value to individual bankers and business men can be measured in dollars. Merlin H. Aylesworth, president of the National Broadcasting Company, draws a parallel between the radio business and trust companies, pointing out that both are dedicated to public service. He believes that radio will have an increasingly important function as an advertising medium.

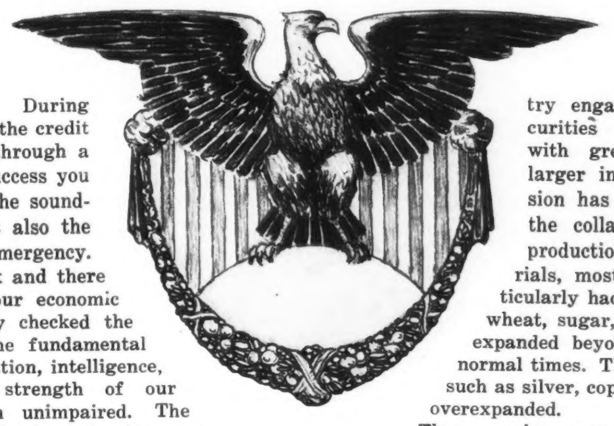
John C. Mechem tells a story of growth and progress in trust business that should be read and re-read by every person wanting to keep abreast of great social and economic changes.

AMERICAN BANKERS
ASSOCIATION JOURNAL

This Question of Stability Is a Great Human Problem

Address of the President of the United States to the American Bankers Association

President Hoover Declared That American Genius Can Prevent Recurring Economic Disturbance as Medical Science Has Overcome Recurring Pestilence. Bankers Can Help the Upward Movement by Instilling Courage and Confidence.



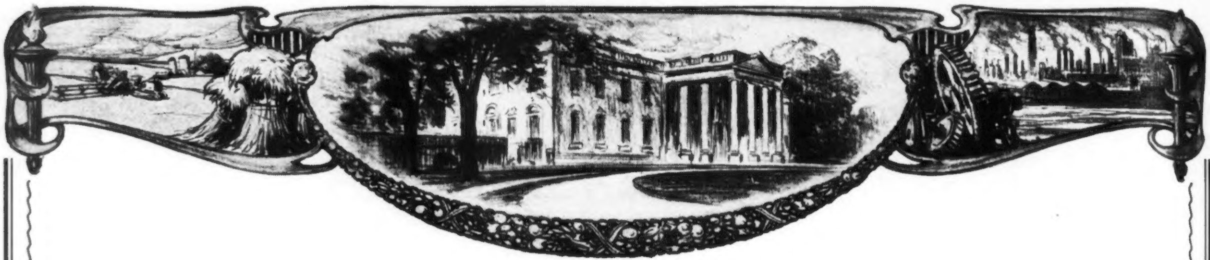
I AM glad to meet with this assembly of representative bankers from every State and almost every county of our country. During the past year you have carried the credit system of the Nation safely through a most difficult crisis. In this success you have demonstrated not alone the soundness of the credit system but also the capacity of our bankers in emergency.

We have had a severe shock and there has been disorganization in our economic system which has temporarily checked the march of prosperity. But the fundamental assets of the Nation, the education, intelligence, virility, and the spiritual strength of our 120,000,000 people have been unimpaired. The resources of our country in lands and mines are undiminished. Scientific discovery and invention have made further progress. The gigantic equipment and unparalleled organization for production and distribution are in many parts even stronger than two years ago.

Though our production and consumption has been slowed down to 85 or 90 per cent of normal, yet by the very fact of the steady functioning of the major portion of our system do we have the assurance of our ability and the economic strength to overcome the decline. The problem today is to complete the restoration of order in our ranks and to intensify our efforts to prevent such interruptions for the future. And it is not a problem in academic economics. It is a great human problem. The margin of shrinkage brings loss of savings, unemployment, privation, hardship, and fear, which are no part of our ideals for the American economic system.

This depression is worldwide. Its causes and its effects lie only partly in the United States. Our country engaged in overspeculation in securities which crashed a year ago with great losses. A perhaps even larger immediate cause of our depression has been the effect upon us from the collapse in prices following overproduction of important raw materials, mostly in foreign countries. Particularly had the planting of rubber, coffee, wheat, sugar, and to a lesser extent cotton, expanded beyond world consumption even in normal times. The production of certain metals, such as silver, copper, and zinc, had likewise been overexpanded.

These major overexpansions have taken place largely outside of the United States. Their collapse has reduced the buying power of many countries. The prosperity of Brazil and Colombia has been temporarily affected from the situation in coffee; Chile, Peru, Mexico, and Australia from the fall in silver, zinc, and copper. The buying power of India and China, dependent upon the price of silver, has been affected. Australia, Canada, and the Argentine have been affected by the situation in wheat; Cuba and Java have been depressed by the condition of the sugar industry; East India generally has suffered from the fall in rubber. These and other causes have produced in some of the countries affected some political unrest. These economic disturbances have echoed in slowed-down demand for manufactured goods from Europe and ourselves, with inevitable contribution to unemployment. But the readjustments in prices, which were also inevitable, are far along their course. Most of these



HERBERT C. HOOVER
President of the United States

commodities are below the level at which sufficient production can be maintained for the world's normal needs, and therefore sooner or later must recover.

We Need Not Wait

BECAUSE the present depression is world-wide and because its causes were world-wide, does not require that we should wait upon the recovery of the rest of the world. We can make a very large degree of recovery independently of what may happen elsewhere.

I should like to remind you that we did precisely that thing in 1922. We were then experiencing the results of the collapse of war inflation in all commodities and in every direction. We had less organized cooperation between the business community and the Government to help mitigate that situation. The rest of the world was in chaos from the war far more menacing both to economic and political stability than anything confronting us today. Our difficulties at that time were far more severe than they are at present. The commercial banks particularly were sufferers from a large volume of frozen credits and enjoyed nothing to compare with the comfortable liquidity that prevails today. We then had overexpansion and large stocks in most commodities; today with one or two exceptions we are free from this deterrent. But we led the world in recovery. It was our independent recuperation from that depression, and the economic strength which we so liberally and largely furnished to other countries, that was the very basis for reconstruction of a war-demoralized world.

Able to Free Ourselves

WE are able in considerable degree to free ourselves of world influences and make a large measure of independent recovery because we are so remarkably self-contained. Because of this, while our economic system is subject to the shock of world influences, we should be able, in large measure, to readjust ourselves. Our national production is over one-third of the total of the whole commercial world. We consume an average of about 90 per cent of our own production of commodities. If, for example, we assume a restored normal home consumption and held even our present reduced basis of exports, we should be upon a 97 per cent of normal business basis. Even this illustration does not represent all of our self-contained strength.

We shall need mainly to depend upon our own strong arm for recovery, as other nations are in greater difficulty than we. We shall need again to undertake to assist and cooperate with them. Our imports of commodities in the main depend upon our domestic prosperity. Any forward movement in our recovery creates a demand for foreign raw materials and goods and thus instantly reacts to assist other countries the world over.

I wish to take your time to discuss some of the pivotal relationships of the bankers not only to the immediate problem of recovery but to the wider problem of long-view business stability. Any discussion of the one involves the other.

The Dynamic Power of America

BEFORE I enter upon that subject, however, I wish to say that no one can occupy the high office of President and conceivably be other than completely confident of the future of the United States. Perhaps as to no other place does the cheerful courage and power of a confident people reflect as to his office. There are a few folks in business and several folks in the political world who resent the notion that things will ever get better and who wish to enjoy our temporary misery. To recount to these persons the progress of cooperation between the people and the Government in amelioration of this situation, or to mention that we are suffering far less than other countries, or that savings are piling up in the banks, or that our people are paying off installment purchases, that abundant capital is now pressing for new ventures and employment, only inspires the unkind retort that we should fix our gaze solely upon the unhappy features of the decline. And, above all, to chide the pessimism of persons who have assumed the end of those mightly forces which for 150 years have driven this land further and further toward that great human goal—the abolition of intellectual and economic poverty—is perhaps not a sympathetic approach. Nevertheless, I always have been, and I remain, an unquenchable believer in the resistless, dynamic power of American enterprise. This is no time—an audience of American leaders of business is no place—to talk of any surrender. We have known a thousand temporary setbacks, but the spirit of this people will never brook defeat.

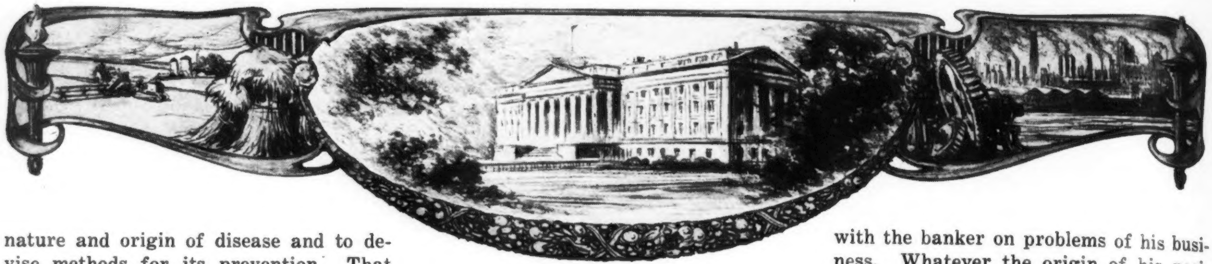
Our present situation is not a new experience. These interruptions to the orderly march of progress have been recurrent for a century. And apart from recovery from the present depression, the most urgent undertaking in our economic life is to devise further methods of preventing these storms. We must assure a higher degree of business stability for the future.

Control Is Within Reach

THE causes advanced for these movements are many and varied. There is no simple explanation. This is not an occasion for analysis of the many theories such as too little gold or the inflexible use of it. Whatever the remote causes may be, a large and immediate cause of most hard times is inflationary booms. These strike some segment of economic life somewhere in the world, and their re-echoing destructive results bring depression and hard times. These inflations in currency or credit, in land or securities, or overexpansion in some sort of commodity production beyond possible demand even in good times—may take place at home or abroad—but they all bring retribution.

The leaders of business, of economic thought, and of government have for the last decade given earnest search into cause and remedy of this sort of instability. Much has already been accomplished to check the violence of the storms and to mitigate their distress. As a result of these efforts the period of stable prosperity between storms is longer, the period of storm is shorter, and the relief work far more effective. But we need not go beyond our situation today to confirm the need for further effort.

The economic fatalist believes that these crises are inevitable and bound to be recurrent. I would remind these pessimists that exactly the same thing was once said of typhoid, cholera, and smallpox. If medical science had sat down in a spirit of weak-kneed resignation and accepted these scourges as uncontrollable visitations of Providence, we should still have them with us. This is not the spirit of modern science. Science girds itself with painstaking research to find the



nature and origin of disease and to devise methods for its prevention. That should be our attitude toward these economic pestilences. They are not dispensations of Providence. I am confident in the faith that their control, so far as the causes lie within our own boundaries, is within the genius of modern business.

Important Thing Is Prevention

WE have all been much engaged with measures of relief from the effect of the collapse of a year ago. At that time I determined that it was my duty, even without precedent, to call upon the business of the country for coordinated and constructive action to resist the forces of disintegration. The business community, the bankers, labor, and the Government have cooperated in wider spread measures of mitigation than have ever been attempted before. Our bankers and the reserve system have carried the country through the credit storm without impairment. Our leading business concerns have sustained wages, have distributed employment, have expedited heavy construction. The Government has expanded public works, assisted in credit to agriculture, and has restricted immigration. These measures have maintained a higher degree of consumption than would have otherwise been the case. They have thus prevented a large measure of unemployment. They have provided much new employment. Our present experience in relief should form the basis of even more amplified plans in the future. But in the long view the equally important thing is prevention. We would need have less concern about what to do in bad times if we discovered and erected in good times further safeguards against the excesses which lead to these depressions.

Economic Future Is Safe

AMERICAN business has proved its capacity to solve some great human problems in economics. The relation between employer and employee has here reached a more stable and satisfactory basis than anywhere else in the world. We have largely solved the problem of how to secure the consumption of the gigantic increase of goods produced through that multiplication of per capita production by the application of science and the use of labor-saving devices. That solution has been attained by sharing the savings in production costs between labor, capital, and the consumer, through increased wages and salaries to the worker, and decreased prices to the consumer with consequent increased buying power for still more goods. Every step in that solution is a revolution from the older theories of business.

We may safely assume that our economic future is safe so far as it is dependent upon a competent handling of problems of productivity. But one result is to render further advance toward stability even more urgent, because with higher standards of living the whole system is more sensitive and the penalties of instability more widespread.

The Banker's Position

THERE is no one group of which the public expects so much in assuring stability as the bankers, because in the vortex of these storms many values lose their moorings. Nor can any other group contribute so much in constructive thought and action to solve the problem either today or in the long run.

Three most important relationships to these business movements lie in the banker's field. The first is what, for lack of better terms, we call psychology—both that contagious overoptimism which accelerates the inflation of the boom and those depths of fear and pessimism which deepen and prolong the depression. The American banker has come to occupy a unique position in the strategy of stability, for he is the economic adviser of American business. He is the listening post of economic movement. He in large measure makes or tempers its psychology.

I do not suppose the banker has consciously sought this new function of general adviser, but such he has become. His business is no longer the simple function of discounting commercial bills and lending money on first mortgages. That is today but part of his work. These days, when he establishes a line of credit to a business, or furnishes loans upon securities of a business, or advises investment in a business, he must know the elements which make for success and failure of that business. And he must form judgment as to the future trend of business in general. On the other side, the American business man, big and little, the farmer, and the labor leader are coming more and more to consult with the banker on problems of his business. Whatever the origin of his position may be, the banker is now the economic guide, philosopher, and friend of his customers, and his philosophy can dampen our enthusiasm and equally it can lift our courage and hope.

Wise Direction of Credit

THE second point of the banker's unique position in relation to business trends lies in the part which credit plays in the whole business process. Obviously during the inflationary period the use of credit for unwise expansion and speculation draws away the supply of credit from normal business. It imposes upon normal business an interest rate which strangles the orderly commerce of the country. Commerce sickens under this pressure, its pace slackens and contributes to collapse. Therefore, I wish to emphasize what has long been recognized—that is, that the flow of credit can accelerate and it can retard such movements. Equally a wise direction of credit provides a large contribution to recovery from depressions.

The third reason why this is so much a banker's problem is that banking is the one great line of business activity that is in itself interconnected. Each credit institution shares the credit burdens of others and all are largely coordinated through national organization—the Federal reserve system.

Widespread Cooperation

THE reserve system and its member banks and the Treasury participation in fact form a widespread cooperative organization, acting in the broad interest of the whole people. To a large degree it can influence the flow of credit. Bankers themselves are represented at each stage of management. And, in addition, the various boards and advisory committees represent also industry, agriculture, merchandising, and the Government. The reserve system therefore furnishes an admirable center for cooperation of the banking business with the production and distribution industries and the Government in the development of broad and detached policies of business stability.

You have gained much experience from the two great crises of recent years. I trust you will seriously and systemically consider what further effective measures can be taken either in the

business world or in cooperation with the Government in development of such policies, both for the present depression and for the future. I know of no greater public service. It is a service to every business man, to every farmer, to every worker, whether at the desk or bench. I am not assuming you can do it all, or that all disturbance, domestic or foreign, can be wholly prevented or cured.

The Government should cooperate. It plays a large part in the credit structure of the country. Its fiscal system has most important bearings. For instance, I believe an inquiry might develop that our system of taxes upon capital gains directly encourages inflation by strangling the free movement of land and securities.

Regulatory Functions

THE regulatory functions of the Federal and State Governments also have a bearing on this subject through their effect upon the financial strength of the railways and utilities. During a period of depression the soundest and most available method of relief to unemployment is expansion of public works and construction in the utilities, railways, and heavy industries. The volume of possible expansion of construction in these private industries is about four or five times that in public works. During the present depression these industries have done their full part, but especially the railways have been handicapped by some provisions of the Transportation Act of 1920. With wider public vision the railways could be strengthened into a greater balance wheel of stability. We have need to consider all of our economic legislation, whether banking, utilities, or agriculture, or anything else, from the point of view of its effect upon business stability.

No Solutions By Direct Action

I HAVE never believed that our form of government could satisfactorily solve economic problems by direct action—could successfully conduct business institutions. The Government can and must cure abuses. What the Government can do best is to encourage and assist in the creation and development of institutions controlled by our citizens and evolved by themselves from their own needs and their own experience and directed in a sense of a trusteeship of public interest. The Federal Reserve is such an institution.

Without intrusion the Government can sometimes give leadership and serve to bring together divergent elements and secure cooperation in development of ideas, measures, and institutions. That is a reenforcement of our individualism. It does not cripple the initiative and enterprise of our people by the substitution of government.

Proper cooperation among our people in public interest, and continuation of such institutional growths, strengthen the whole foundation of the Nation, for self-government outside of political government is the truest form of self-government. It is in this manner that these problems should be met and solved.

Bankers' Responsibility Is Very Great

I WISH to revert to the influence of the bankers, through encouragement and leadership, in expedition of our recovery from the present situation. You have already done much, and at this juncture the responsibility of those in control of money and credit is very great. Without faith on your part and without your good offices, the early return to full prosperity can not be accomplished. This depression will be shortened largely to the degree that you feel that you can prudently, by counsel and specific assistance, instill into your clients from industry, agriculture, and commerce a feeling of assurance.

We know that one of the prerequisites of ending a depression is an ample supply of credit at low rates of interest. This supply and these rates are now available through the cooperation of the banks and the Federal reserve system.

The income of a large part of our people is not reduced by the depression but it is affected by unnecessary fears and pessimism, the result of which is to slacken the consumption of goods and discourage enterprise. Here the very atmosphere of your offices will affect the mental attitude and, if you please, courage, of the individuals who will depend upon you for both counsel and money. Many, perhaps all of you, have been through other periods of depression. Those of you who have had occasion to review the experience of the past will, I believe, join in the thought that there comes a time in every depression when the changed attitude of the financial agencies can help the upward movement in our economic forces.

No One Can Contribute More

I STARTED with the premise that this question of stability was much more than a problem in academic economics—it is a great human problem, for it involves the happiness of millions of homes. A continued unity of effort, both in our present situation and in establishing safeguards for the future, is the need of today. No one can contribute more than our banking community.

It appears from the press that some one suggested in your discussion that our American standards of living should be lowered. To that I emphatically disagree. I do not believe it represents the views of this association.

Not only do I not accept such a theory, but on the contrary, the whole purpose and ideal of this economic system which is distinctive of our country is to increase the standard of living by the adoption and the constantly widening diffusion of invention and discovery amongst the whole of our people, any retreat from our American philosophy of constantly increasing standards of living becomes a retreat into perpetual unemployment and the acceptance of a cesspool of poverty for some large part of our people.

Our economic system is but an instrument of the social advancement of the American people. It is an instrument by which we add to the security and richness of life of every individual. It by no means comprises the whole purpose of life, but it is the foundation upon which can be built the finer things of the spirit. Increase in enrichment must be the objective of the nation, not decrease.

In conclusion I would again profess my own undaunted faith in those mighty spiritual and intellectual forces of liberty, self-government, initiative, invention, and courage, which have throughout our whole national life motivated our progress, and driven us ever forward. These forces, which express the true genius of our people, are undiminished. They have already shown their ability to resist this immediate shock. Any recession in American business is but a temporary halt in the prosperity of a great people.

JOHN G. LONSDALE

Retiring President of the American Bankers Association

Mr. Lonsdale is President of the Mercantile-Commerce Bank and Trust Company of St. Louis

Banking Broadens Its Field

American Bankers Association at Cleveland Struck Note of Leadership. Progress in Science of Better Management, Confidence in the Country's Economic Present and Future, and Preparedness for the Work Ahead Dominated the Meeting.

THE American Bankers Association, at its Fifty-Sixth Annual Convention in Cleveland, answered world-wide economic hesitancy with an impressive demonstration of vigorous, confident business leadership. There were certain characteristics of this convention which gave it special historical importance. In the first place the meeting occurred after a year of faltering anxiety and timid hope, with industrial and financial ills apparently refusing to yield to old-fashioned treatment, a year punctuated by political disturbances abroad. It took place at a moment when the first faint but dependable signs of recovery had appeared, only to encounter new evidence of maladjustment between supply and demand and new proof of a volcanic political situation affecting many of America's principal markets overseas.

Three chief motives guided the Convention: willingness to accept the task and responsibility of leadership; eagerness to cooperate for the general good of banking and a desire to clear away some of the uncertainty clouding the immediate future. Optimism was genuine and wholly supported by facts.

Better Banking

RUNNING through all addresses before the general sessions and Division meetings and through Committee programs and informal discussions was the central theme of better banking, because what is good for banking is good for the nation's business. In attendance this convention ranked well with others, having approximately 6,300 registered delegates, but in its accomplishments, its psychological benefits to the country and general interest, it was perhaps the most important convention ever held by the American Bankers Association. Editorial comment expressed the view that the United States and the rest of the world looked to American bankers for a solution of current business problems, more than to any other group.

The President of the United States stated this fact forcefully in his address before the last general session when he said:

"There is no group of which the public expects so much in assuring stability as the bankers, because in the vortex of these storms many values lose their moorings. Nor can any other group contribute so much in constructive thought and action to solve the problem either today or in the long run."

One Outstanding Issue

DOVETAILED with all discussions of groups, chains and branches were subjects of management, regional cooperation, the provisions of the national bank charter and the future of the trust idea. Hardly one of the great problems of the banking world today, it was discovered, could be examined apart from the merger movement. Almost all roads of discussion led to whether one was talking about a unit bank or a number of banks operating under a common administration. It was the action of the Convention, therefore, on this all important matter that takes first rank in the deliberations.

The 56th Convention reminded the country that the business depression in the United States was only one phase of a world-wide decline in activity and that it was largely a necessary process of readjustment. Speakers in general, and the Convention as a body, took the definite stand that the depression had about run its course. The idea was frequently expressed that banking had met the emergency with unusual foresight and had passed through it without allowing the credit structure of the country to be impaired.

The Association put itself on record as convinced that its former unqualified stand against branch banking would have to be modified to bring it into agreement with fundamental changes which have already occurred. The Association confirmed the work of the Special Committee on Section 5219 and instructed that committee to oppose legislation which failed to provide that taxes on the shares of national banks should be measured by taxes on competing moneyed capital; or by other means which assure the same result.

New Administration

ROME C. STEPHENSON, vice-president of the St. Joseph County Savings Bank, South Bend, Ind., and newly elected President of the American Bankers Association, predicted a period of greater banking activity.

"In accepting the high and important office of President of the American Bankers Association," he said, "it is with a keen sense of its duties and responsibilities that I shall endeavor, to the best of my ability, to serve you faithfully.

"The preceding Presidents for many years have come into office with well-defined plans and ideals to be accomplished. They have all served with conspicuous success. The American Bankers Association is one of the most important business organizations in the world and the benefits derived therefrom are varied and far-reaching. The banker occupies an important position in his community, as he is the custodian of the wealth of his customers. It is essential that he should lead a sober, clean wholesome life; that he should be absolutely honest and fearless in his business transactions, whereby he may merit the confidence and good-will of the community in which he lives. The banker had long recognized the necessity and desirability of cooperation and organization, which finally resulted in the creation of our Association. The interests of the bankers and the general public are intertwined. The measures advocated through the years by the Association have been, not only for the benefit of the bankers, but also for the good of the public.

"Great strides have been made in banking since the passage of the law providing for the organization of national banks. Improvements in banking have kept pace with the evolution in industrial, commercial and agricultural activities. The passage of the law creating the Federal Reserve System gave to the United States the most perfect and workable financial plan of all time. Every possible strain and test that could be imposed has been successfully met by the System during the past sixteen years. The law creating it should be zealously guarded. In all the changes in the laws governing banking and in the evolution of the methods and practices connected therewith the American Bankers Association through its Divisions, Committees and Commissions and Sections has been in the vanguard endeavoring to point out safe, sane and sound principles, so that the results attained would be for the welfare, progress and prosperity of the nation.

ROME C. STEPHENSON

Vice-President St. Joseph County Savings Bank, South Bend, Ind., incoming President American Bankers Association

"The activities of the Association during the past year have resulted in attaining the goal announced by our President, Colonel John G. Lonsdale, upon his election at San Francisco. By the intelligent and forceful manner in which he has met every problem as presented, he has endeared himself to the membership of the Association.

Business Improving

"IT has been decidedly encouraging to learn from delegates, representing every section of the country, that business is gradually improving in their communities. These reports of better times throughout the country have been an inspiration to us. We shall return to our homes with renewed confidence in the future of business and with a determination to do everything possible to speed the day of its return to normal.

"The inactivity in business and the absence of purchasing power on the part of the people, during the past ten months should prove a valuable lesson, which if properly heeded, will result advantageously. There have been many proposals and considerable discussion recently regarding some sort of insurance for the toilers, to cover periods of industrial inactivity. The Savings Bank Division of the American Bankers Association has declared that the easiest and most practical method of meeting the problem is for the worker to create a savings account in a bank or trust company. When the period of depression arrives the savings account will serve as a reservoir from which funds can be withdrawn as needed until work again becomes plentiful. The savings account will be the insurance policy payable on demand. The industrial worker will be free from worry and the sole custodian of the amount accumulated, where it will be accessible as desired.

"During the coming year there will be no abridgment whatever in the activities in which the Association has been so successfully engaged in the past. In addition thereto, the Association will undertake an intensive campaign, the purpose of which shall be to induce our people to be economical and thrifty in the sense that the French nation is especially endowed. People generally should save regularly a stipulated amount of their income and deposit it in a savings account. They should make their expenditures carefully and not foolishly, ever keeping before them the thought which shall be our slogan 'there is no substitute for a savings account'."

Problems of Small Banks

IN spite of the large place given to consideration of branch banking, the Convention was distinguished by the fact that the problems of the unit bank, particularly the small country bank, received careful consideration. Even among the strongest supporters of centralized banking control there was no tendency to underestimate the permanent value of well-managed independent institutions. Most of the addresses and most of the discussions directly concerned the problem of widening the activities of unit banks, increasing their profits, reducing their expenses, safeguarding their investments and making them better able to stand alone.

The service charge, in practice and theory, developed rapidly during the year. The Association has been almost wholly converted from the doctrine that a bank must supply various services to customers without fee. It is important to know that opinion on service charges among members is no longer apologetic or defensive. The belief is more firmly entrenched than ever before that bank customers, intelligently advised, should be willing to pay for bank service on the theory that adequate earnings strengthen the general banking structure, prevent failures and promote community welfare.

One thing in particular which aroused favorable comment inside and outside of the Association, was the complete absence of any effort to inject artificial optimism into the country's economic outlook. As indicated in the summary of the general sessions which follows, the Association expects no reappearance of 1929's pyrotechnics, but a gradual, healthy rise in production to meet demand, and an equally gradual mending of public confidence in the future.

Cleveland Hospitality

AT the opening session of the Convention in the Cleveland Public Auditorium, September 30, Mr. John G. Lonsdale, retiring President of the Association, delegated the reading of his address to Max B. Nahm, vice-president of the Citizens National Bank, Bowling Green, Kentucky. Prefacing the address, Mr. Lonsdale paid high tribute to the business men and bankers of Cleveland, who had arranged the details of the Convention and had provided for the entertainment and convenience of delegates. He said that the city was not only a great commercial and financial center but was outstanding also in culture and hospitality. Mr. Lonsdale's address on "The Period of Adjustment" appears elsewhere in this issue.

A telegram was received by Mr. Lonsdale from Mr. Guillermo Obregon, secretary of the Mexican Bankers Association, extending greetings.

Secretary Fitzwilson announced a luncheon invitation by the Cleveland chapter, Robert Morris Associates, to all bank credit men who were members of Robert Morris Associates.

The address of Rudolf S. Hecht, president of the Hibernia Bank & Trust Company, New Orleans, La., and chairman of the Economic Policy Commission, is published elsewhere in this JOURNAL. It formed the basis for the resolution on branch banking which was later adopted, after some discussion and amendment, by the Convention.

The second session, on Oct. 1, heard two addresses of first importance and a discussion of the resolution embodying the Association's stand on branch banking. Mr. Alexander D. Noyes, financial editor of the *New York Times*, spoke on "The Cycle of Prosperity," examining the current recession, against an historical background with a perspective of several decades. His address appears elsewhere in this issue.

Thornton Cooke, president, Columbia National Bank, Kansas City, Mo., chairman of the Committee on Taxation and chairman of the Special Committee on Section 5219, United States Revised Statutes, addressed this session of the Convention on "The Business Man and the Banker Discuss Taxation." The text of this speech is published elsewhere in the JOURNAL.

Mr. Nahm, as chairman of the Resolutions Committee, submitted that body's report, the text of which, as finally amended and adopted, appears elsewhere in this issue. President Lonsdale called for discussion. C. F. Zimmerman, president, First National Bank, Huntingdon, Pa., objected to the phrasing of that part of the resolutions dealing with branch banking.

"It seems to me," he said, "that we should qualify the resolutions to the extent that no inference from any advocacy of branch banking by the American Bankers Association should seem to be directed against the autonomy of our state banking systems. I believe it would be unfortunate for the impression to go to Washington directly or indirectly that the American Bankers Association sanctions by Federal legislation the extension of branch banking on any basis except one providing for the preservation of the autonomy of our state banking systems."

Mr. Zimmerman suggested that Mr. Hecht might know some way to reconcile these viewpoints and make sure that no resolution adopted by the Convention would be open to misrepresentation. Mr. Hecht replied that he was completely in accord with Mr. Zimmermann and said that perhaps the language of the resolution had not been precisely clear.

He suggested that Mr. Zimmermann meet immediately with members of the Resolutions Committee and agree on a few words to be added to the resolutions.

H. O. Dilley, cashier, First National Bank, Northfield, Minn., suggested from the floor that Mr. Zimmerman be sup-

ported by others of his opinion when he met with the committee. President Lonsdale invited Mr. Dilley to be present.

Levi H. Morris, president of the Newton Trust Company, Newton, New Jersey, said that he favored amending the resolutions, and read a memorandum from his state association opposing any extension of present branch banking privileges.

New Officers

COLONEL WILLIAM G. EDENS, vice-president of the Central Trust Company of Illinois, Chicago, and chairman of the Nominating Committee, submitted a report naming for President, Rome C. Stephenson, vice-president of the St. Joseph County Savings Bank, South Bend, Ind.; for First Vice-President, Harry J. Haas, vice-president of the First National Bank, Philadelphia; and for Second Vice-President, Francis H. Sisson, vice-president of the Guaranty Trust Company, New York City. This report was unanimously adopted.

Mr. Fred W. Sargent, president of the Chicago and North Western Railway Company, addressed the third session, Oct. 2, on the subject, "The Drift Toward Confiscation." Fred I. Kent, director, Bankers Trust Company, New York, spoke on "The World Today." Both of these addresses appear elsewhere in this issue.

Branch Banking Resolution

DISCUSSION of proposed changes in the resolutions affecting branch banking, was revived during the third session. President Lonsdale said that a misunderstanding the previous day made it necessary to call for a new vote. J. A. Pondrom, chairman of the executive committee, First National Bank, Dallas, Tex., moved that all reference to county-wide banking be stricken from the resolutions, on the ground that if the Association admitted that county-wide branches were desirable, it might as well endorse branch banking in general.

Mr. Hecht explained that such a change would have the effect of broadening the resolution instead of restricting it and thus would "give the opportunity to those who favor branch banking on a much larger scale to argue that the American Bankers Association has gone on record in favor of branch banking."

Issues involving taxation and the national banks' right of circulation were raised but Judge Paton, General Counsel of the American Bankers Association, explained that the language of that section of the resolutions under discussion had been intended to apply only to the question of branch banking. "It was intended to convey," he said, "the idea that the states should have full autonomy in the matter of branch banking free from any control by the Federal Government."

Mr. Pondrom submitted an amendment striking out the words "county-wide" and "community-wide" but this was lost. Mr. M. Plin Beebe, President of the State Bank Division and a member of the Resolutions Committee, spoke briefly interpreting the text of the resolution in question and said that if the Association went on record as limiting branch banking to counties or metropolitan areas, there would be an effective barrier set up against state-wide or nation-wide branch banking.

Mr. Levi H. Morris, president of the Newton Trust Company, Newton, New Jersey, on behalf of the New Jersey Bankers Association, invited the American Bankers Association to hold its convention next year in Atlantic City, N. J. The invitation was referred to the Administrative Committee.

Secretary Fitzwilson read a cablegram of greetings from the bankers of Hawaii to the American Bankers Association.

President Lonsdale introduced the Association's new officers. Mr. Sisson expressed appreciation for the honor and hoped that he would be able to perform useful service in the field of educating the public along economic lines. Mr. Haas praised the administration of President Lonsdale and said that he had presided with justice and fairness to all.

Mr. Stephenson, accepting the gavel, read a statement, quoted above, giving a few of his ideas about the task ahead of him. He then referred to the address of President Hoover, the final event of the Convention, and said that he would turn the gavel back to Mr. Lonsdale for that occasion.

Grant McPherrin

President, Central National Bank & Trust Co., Des Moines, Iowa, Re-elected Treasurer, American Bankers Association

Tribute to Mr. Lonsdale

MR. THOMAS R. PRESTON, president of the Hamilton National Bank, Chattanooga, Tenn., made a speech presenting to Mr. Lonsdale a silver service in recognition of his work as head of the Association.

"It is doubtful," said Mr. Preston, "if the affairs of the American Bankers Association have ever moved more smoothly, or functioned more efficiently than they have under Colonel Lonsdale's direction. During his long service with this Association he has always been active in its affairs. He has been a member of this organization for more than thirty years. He has held many positions of honor and trust before reaching the Presidency. In all of them he has displayed that fine loyalty and devotion to duty which has so characterized him from boyhood until now."

An inscription read: "Presented to John G. Lonsdale with the sincere appreciation of the American Bankers Association for a most effective administration under his able guidance as President." Mr. Lonsdale expressed to the Convention his "affectionate gratitude."

President Hoover's address, following a concert by the United States Navy Band, on the evening of October 2, constituted the final session of the Convention. The President's address appears elsewhere in this JOURNAL.

The Period of Adjustment

By JOHN G. LONSDALE
President, Mercantile-Commerce Bank and Trust Company, St. Louis, and retiring President, American Bankers Association

Many Reasons for Optimism Over Business Conditions Brought About by Repercussions of the World War. We Have Not Yet Learned to Gauge Our Needs and the Power Called "Mass Production." Banking Must Serve All Types of Business.

THE forward-flowing tide of time has brought the American Bankers Association to the end of another eventful year. In the twelve months that have elapsed since last we gathered, as guests of the City of the Golden Gate, we have witnessed a multitude of swiftly moving changes that have left their imprint on the pages of history, not only in America but in lands across the seas.

Perhaps never before in a similar period have our social, business and financial structures, at home and abroad, been called upon to adjust themselves to such a diversity of complicated problems. And never before have our political, business and banking leaders responded more willingly and courageously in their efforts to shape basic factors toward the continued betterment of humanity.

Little more than a year ago, basking in the sunshine of what appeared to be unlimited prosperity, some Americans hailed with loud acclaim the demise of the old-fashioned business-cycle. Now we realize that it did not expire at all, and, in spite of a so-called new order in the economic world, we still have to reckon with the age-old laws of supply and demand.

Throughout this period of stress the American banking system has towered above the economic landscape as the great stabilizing power in commerce and industry. Like the stalwart oak of the mountainside, it has weathered the storm and has emerged in sound condition to face the conflicts of the future. I am confident that the full force of our current recession has been greatly mitigated, through the careful scrutiny of credit and the insistence upon skillful management imposed on our business structure through banking operations. In all this our Federal Reserve System has in the main acted with broad vision and wisdom in coping with conditions for which there was no exact precedent.

Assumed His Rightful Place

MOREOVER, the past year has seen continued development of the banker as a leader in local, national and international affairs. He has cast aside the conventionalities of former years, stepped out of his seclusion and assumed the role which is rightly his in the community. The increasing usefulness which he has come to exercise in every phase of life has been fully demonstrated in recent times in virtually every council which has been called for the solution of problems at home or abroad.

Early this year when Europe sought to put an end to the reparations issue and clarify misty economic uncertainty, the Dawes plan having fulfilled its mission, it called in America's foremost bankers and business men who paved the way to an agreement and later assumed management and direction of the World Bank for International Settlements that arose out of the Young plan. This happy economic adjustment has had a far-reaching effect on world stabilization, and its significance to the average American becomes apparent when it is realized that the $9,000,000,000 which Germany eventually must pay, about $6,000,000,000 will find its way to the United States in payment of international debts.

Last autumn when President Hoover called together the business leaders of the nation to stabilize and stimulate industry, our bankers occupied seats of prominence at the conference table and lent loyal support to his constructive plans.

Only recently, when a scorching summer sun devastated our crops, dried up our streams and left disaster in its wake over a wide area, our bankers were called in as the central figures to aid in extending financial relief to suffering humanity.

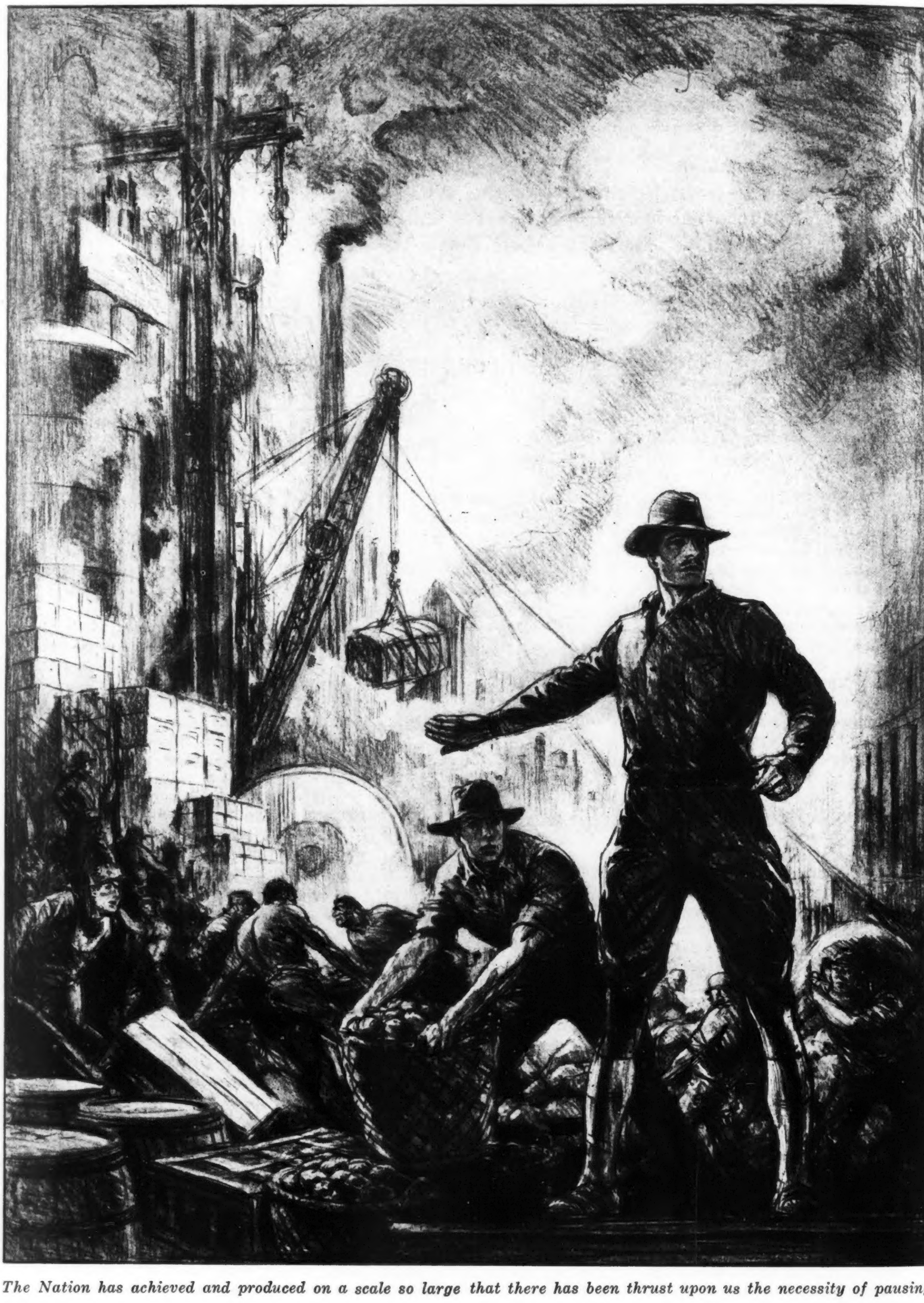
While attracting less public attention, the rise of interest among bankers in more scientific management and conduct of the banking business is a development of the highest importance to banks and to those they serve, and it augurs well for the future of all business. Scientific management, while adding to the profit and to the safety of banking, does not produce benefits solely for the bank. Scientific management means in the last analysis a more just and equitable distribution of costs among the customers—the relief of good business from the burden of carrying poor or unprofitable business—the possibility of extending more credit to worthy and substantial lines. No effort of the American Bankers Association to help banking has brought greater results than its bank management conferences and its bank management studies. No movement in banking is more worthy of our attention than the continued study of scientific bank management.

Proud Record

DURING this year of adjustment, says Mr. Lonsdale, the banking system of the United States has "towered above the economic landscape as the great stabilizing power in commerce and industry." This is a period of vast changes. Science and machinery have put tremendous pressure on production without a comparable increase in marketing. The great desire of banking today, he believes, is to know where it is going. The answer is "with the needs of industry, commerce, agriculture and the average man."

Repercussion of the War

IT must be plain to every student of events that in the present condition of business here in the United States we find a repercussion of the World War. Agriculture and industry under pressure of national need in the years following 1914, produced in unprecedented quantities, and when the conflict was over the ambition to continue on the same scale was the ruling passion.



The Nation has achieved and produced on a scale so large that there has been thrust upon us the necessity of pausing.

Consider for a moment our basic industry, agriculture—down through the years science and invention have achieved wonders in saving labor on the farm, with the result that production and yield and acreage per man have increased at marvelous rates. But while thousands of engineering minds and millions of dollars have been devoted to increasing the yield of the soil, there has been no comparable increase in ways in which to market farm products.

Here we have an unbalanced condition—tremendous energy put upon production—production increasing, but no new ways being generally adopted for opening through chemical discovery additional markets of any large degree for what the farmer raises. Is it not obvious that there is the need for more research with the objective of finding new uses for the raw material of the farms? This need is indicated in just one item of our exports:

In the first six months of the present year 35,790 tractors valued at $34,537,650 were shipped abroad. What is to be the effect abroad and the indirect effect upon us of this flow of labor-saving machinery overseas? Are we to be inactive until we get further untoward reaction from the year-by-year shipments of labor-saving machinery to European and Russian agricultural areas?

What to do to cure the condition of agriculture has long perplexed our national thinkers, although numberless ideas have been advanced. We have seen our Federal Government launch its plan calculated to lessen the evils of overproduction and wasteful methods in marketing and distribution through a Federal Farm Loan Board. This action has been attended by some division of opinion, but, inasmuch as the board has been established by our Congress and our President in an effort to bring much-needed relief, it is only fair and honorable that it should have every opportunity to demonstrate the value of its policies. In the meantime, bankers the nation over will continue, as they have done in the past, to preach the doctrine of more diversity, more equitable taxation and sounder business management for the farmer, all of which will supplement the work of the Farm Board.

Russell Sage is quoted as having said that "when everybody else is standing up is the time for you to sit down." It is the same in agriculture. When everybody else is planting corn or sowing wheat, that's a good time for someone to sow something else. Diversity is one of the cures for over-production.

The New Machine

IN industry, as we all know, we have learned to stamp out or fashion useful articles by the dozens at less cost and in incredibly less time than one could be fashioned by hand in the old days. Thus we have created a new machine—a stupendous machine—encompassing the whole continent—field and factory—working incessantly, using all forms of energy, gathering speed as it runs, feeding on all materials and producing foods, finished articles and fabrics in infinite variety. We call it "mass production."

Now, it would be strange, indeed, if we had so soon learned to gauge the speed and output to the exact capacity of our foreign and domestic markets of so great a power. Having created a new kind of life, a new set of conditions, we must adjust our affairs to them, and that is what the world is doing now—adjusting.

But in all this there is abundant reason for encouragement. If there has been recession, is it not because the nation has achieved and produced on a scale so large that there has been thrust upon us the necessity of pausing? The outstanding characteristic of our times, therefore, is that men are letting loose new forces of tremendous volume, potentiality and adaptability, and no one can foresee all of the changes these forces will bring about. It is a glorious thing to contemplate that as a nation we have too much, rather than too little—that in the forefront of our problems there is nothing more formidable than adjustment; the great natural resources of our country are unimpaired. That is a matter for congratulation; that is a good omen of prosperity in the times to come.

Out of the great unknown—out of the treasure house of nature's secrets—there has quietly come to us through the years a very large part of the wealth we possess, and I am optimistic enough to believe that the future will reveal other valuable secrets, adding still more to our wealth and prosperity.

When we strive to see the future, the events of the past sometimes are helpful; hence in reviewing changes in our business in recent years it is important to note that not all—in fact few of the changes—have received the initial impulse from within banking.

Very often the impulse has come from without and far afield. The automobile and all that pertains to it is directly and indirectly a big factor in banking—yet what banker felt even a ripple of interest on that summer day a generation ago, when the first American automobile was made to run on a country road? Now one automobile corporation alone carries balances in more than 1800 banks. What banker foresaw the tremendous economic forces that were being set into operation when Woolworth opened his first store, or the Whalens tried out their ideas of selling tobacco? Consider what the chain has done to banking—no less than to business in general! And so we can go up and down the list of discoveries, inventions, business conceptions and experiments, and we shall not find one that has not had its actions and reactions on banking. We may reasonably expect more new impulses from without because research—once a one-man business—now has been organized by great corporations on a scale commensurate with its importance and from it may come at any time discoveries as important as any of those in the past.

Banking Must Serve All

IN things as they are and in things as they are to be, banking must serve business. Even if we would, we cannot stand still while the world moves on with quickening speed. If we failed to go along with business neither would we stop progress nor long retard its speed. What, therefore, is to be the banking structure of the future will not be determined by bankers alone; the incalculable requirements of business will, of necessity, have a commanding voice in that.

Nevertheless, the great desire of banking today is to know whither it goes. Shall there be more legal restraint or more freedom of operation? Part of the answer is that banking must go as business goes. Business is an all-embracing word. It must not mean big business alone; the small farm is real business to the farmer and to the nation, and banking must provide for the farmer because the land is the well-spring of prosperity. The small savings account of the factory hand is real business and banking must, for the same selfish reason, provide for that. The estate a man leaves when his life is over is sacred business and banking, too, must care for that. Hence, it is apparent that banking must go along with all of our people, serving them and helping them to grasp the opportunities that their intelligence may spy out and their industry develop, and it must conserve that estate for the widow and the orphan.

If, therefore, you ask "Whither Banking?" who can answer otherwise than "With the needs of industry, commerce, agriculture and the average man." It has little choice. Perhaps, therefore, we should not urge immediate general legislative enactments at Washington affecting banks, for we should be able to see the way ahead more clearly than is now possible before there is set by law a course that years may be required to change.

There are signs that business is turning upward. September has brought considerable increase in credit operations, the public is opening its purse for purchases, additional employees have been placed in many factories, national savings are continuing to grow, and the

(*Continued on page* 377)

H. J. HAAS

Vice-President, First National Bank, Philadelphia; Incoming First Vice-President, American Bankers Association

Shall We Attempt to Block Natural Economic Forces?

By R. S. HECHT
President, Hibernia Bank & Trust Company, New Orleans, and Chairman of Economic Policy Commission

An Evolution Going On in Banking. If Public Welfare So Requires, the Association Should Not Hesitate to Modify Its Previous Position. "Shall We for Selfish Reasons Attempt to Block Natural Economic Forces?" Clear-Cut Unity of Purpose.

THE numerous bank failures occurring in certain sections of the country, the difficult struggle for existence by the smaller unit banks, the rapid growth of group and chain banking, the increasing agitation in favor of the extension of branch banking and the proposed changes in Federal reserve policies are all "problems which we bankers must meet." However, they are not problems which can safely be considered from a narrow banking view alone. They are problems which greatly affect the public welfare and convenience. The public therefore has a right to sit in with us in the consideration of these problems and we in turn have a right to demand that the public give serious thought to these problems and help us solve them on the broad basis of the public good.

These various topics were referred to the Economic Policy Commission for study and report to the Association. The general views which I here express are largely the result of the deliberations of this Commission; the recommendations have the unanimous endorsement of the Commission.

A Single Jurisdiction

THERE is a proposed change in our banking system on which there has of late been a good deal of discussion. As a by-product of the very active debate on our other banking problems the opinion has several times been expressed that a single banking jurisdiction should be substituted for our present dual banking system. At the Spring Meeting of the Executive Council, President Barton of the National Bank Division raised the question whether "in the interest of economy, efficiency and sound banking uniformity we should not bring all banking under a single jurisdiction." The matter was referred to the Economic Policy Commission for study and report. The Commission has weighed the arguments pro and con but continues to favor the retention of our dual banking system.

I believe there are just as good reasons why there should be state as well as national banks, as that there should be state as well as a national government. I do not think that analogy is far-fetched. The states should not surrender all political jurisdiction to the central government, and the local business life of the states should not be made to surrender all control over financial functions to national financial instrumentalities. There are many variations of business conditions from state to state and there are special fiscal requirements of the various states.

It is entirely logical, therefore, that the states should retain the right to charter banks so as to mold and direct their affairs in accordance with the states' governmental and business requirements and keep them adapted to localized sentiment and conditions.

The argument is sometimes advanced that the dual system jeopardizes the life of the Federal Reserve System because under it there is a large group of banks that are free to remain out of or to withdraw from the system. Facts and figures prove that this is a specious argument.

It is true that there has recently been some shifting from national to state charters especially in cases of mergers of large national banks with banks operating under state charters. However, the Federal Reserve System was not weakened in this process because the merged institutions almost universally retained their membership in the system on a voluntary basis. Moreover, the records show that state bank members are just as good members of the system as national banks and the ratio of state bank resources in the Federal Reserve System is constantly growing. In 1922, national banks held about 65 per cent of the resources of reserve members, and state banks about 35 per cent, while in 1929, the nationals held only 60 per cent and state banks 40 per cent.

Reciprocally, the state and national bank systems have helped each other. If the national banking law has served in some respects as something of a model code toward which state banking laws more and more have approached year by year, so have the state codes developed valuable reforms which have suggested improvements for the national laws. A great many undesirable competitive inequalities have been wiped out by this mutual evolutionary process and further progress along the line of uniformity so far as is desirable is anticipated.

Two Banking Codes

HOWEVER, I do not believe that it is a disadvantage to have two banking codes that differ in some respects. It is quite probable that the state banking code in many instances represents a closer adjustment to local conditions than could be had under the national banking laws, and this is a situation that should be retained. One of our Commission members takes the stand, and I agree with him, that there should not be competition between two banking codes. He truly says competition should be between banks themselves and not between the laws under which they operate. The effort to offer too great allurements in one code as against the other could lead only to weak banking laws. There should be the alternative opportunities that now exist from which banking institutions and local business interests may choose, so that they can function or conduct their business relationships under that banking code which best meets the conditions of the times and of the place as they see them.

This has been illustrated in both directions. In states where such unsound laws as the guarantee of deposits were operative state banks had the opportunity to escape the baleful effect of such laws. On the other hand, when a court decision was handed down in Worcester, Massachusetts, which rendered uncer-

tain the position of trust assets acquired by a national bank through a merger with a state bank, it was a real advantage for national banks affected to take out and operate under a state charter, either on a temporary or a permanent basis, as circumstances make expedient.

Bankers, national as well as state, should combat the thought that conceives of depriving us of the vitalizing benefits of our dual system.

Bank Failures

BANK failures not only mean loss to bank stockholders and the impairment of confidence in other banks—they also mean injury to the general public through loss of deposits and the deprivation of communities of requisite financial facilities. This problem, unfortunately, has again been brought very much to the fore this year after we thought we had reason to believe there had been a turn for the better.

Official records show that in the year ended June 30, this year, there were 758 bank suspensions with deposits of $353,500,000. In point of numbers this is the highest mortality in any year since the war except 1924 when there were 915 suspensions and in 1927 when there were 831. In point of deposits it was the highest, even exceeding the $297,900,000 reported for 1924, and $266,600,000 for 1927.

Following 1927 there was an encouraging drop in failures, there being but 484 in the year ending June 30, 1928, with deposits of $158,700,000 and 551 in the year ending June 30, 1929, with $182,300,000 in deposits.

During the last ten years about 5700 banks have suspended, mostly in the agricultural districts, tying up gross deposits of almost two billion dollars—or to be more exact, $1,930,000,000, a considerable part of which meant ultimate loss.

The bank failure problem has been chiefly a small rural bank problem. Official studies covering a recent eight-year period show that more than four-fifths of all the banks in the United States are situated in small towns with average capital of about $44,000 and it is among these small banks that most of the failures have occurred. Seventy-one per cent of the suspended banks, both national and state, were capitalized below $50,000 each and 88 per cent under $100,000, but by far the largest number of failures occurred among banks having capital of $25,000 or less, these constituting 63 per cent of the failures. Over 40 per cent failed in towns with between 500 and 1000 population; 20 per cent in towns of from 1000 to 2500, and 12 per cent occurred in towns from 2500 to 10,000 population. About 92 per cent were in places under 10,000 population.

The failures in the present period of increases, which are general, although most acute in the agricultural states, again emphasize that the situation presents preponderantly a small bank and small town problem.

In 1927 at the Houston Convention of the Association, the Economic Policy Commission presented an exhaustive report on the question of bank failures and their causes in which its main conclusions in summary were as follows:

(1) Adverse conditions precipitated numerous failures of financially weak and unskilfully managed banks.
(2) An excessive number of banks is the most potent single cause of failure.
(3) This situation can be corrected in part by increased capital requirements, and more completely by the limitation of new charters to the needs of the community for additional banks.
(4) In view of the heavy legal and moral responsibilities of bank directors, closer supervision by them is desirable in their own interest and would serve to correct much that leads to insolvency.
(5) While additional restrictive legislation covering loans and investments is not favored, the more immediate enforcement of existing statutes is approved.
(6) The clearinghouse examination system has been in general highly advantageous, and its further growth is to be anticipated.
(7) As a plan feasible for immediate and general adoption, the organization of local regional associations of banks for the purpose of supporting and securing the more effective use of the existing system of examinations is strongly recommended.

We believe those conclusions of three years ago are still applicable today. However there is another economic factor which presently aggravates the problems of the small country bank to a greater degree than ever before and therefore calls for special emphasis at this time. That is the constant shift of business from the smaller to the larger centers, thus leaving many country banks without sufficient economic support and making more difficult than ever the struggle of these banks to show sufficient earnings to keep them in a sound and healthy condition.

The Problem of Surplus Funds

ONE of the best summaries of some of the technical and especially the economic difficulties which beset the small unit banker of today was contained in an address which Benjamin M. Anderson, Jr., economist of the Chase National Bank delivered a few months ago. I quote the following paragraph:

"The situation was complicated further for many small country banks by the withdrawal of an important source of revenue which they had formerly enjoyed, namely, the making of exchange charges on checks drawn against them for which remittance was expected in another place. The Federal Reserve System of par collection of checks has largely wiped out this source of revenue for very small banks. Again, the institutions chartered by the Federal Government for making mortgage loans reduced an important source of revenue which many of these small banks had in acting as intermediary in the making of mortgage loans.

"At the same time these Federal farm loan agencies brought into the agricultural communities an unaccustomed volume of funds which were deposited with the local banks at high rates of interest, and which the local banker felt obliged to reemploy at high rates of interest. Many a small town banker, who was a good banker when his loanable resources were somewhat less than the borrowing demands of his good customers, and who could make good loans when he could discriminate among competing borrowers, found himself to be a very poor banker when he faced the unaccustomed problem of employing surplus funds. He was not trained for that.

"It may be added that the well meant efforts of the Federal Government to improve the condition of agriculture by multiplying the facilities of agricultural credit have had as their main result a great and excessive increase in the mortgage debt of agriculture, without a commensurate increase in the productiveness of agriculture, and with a consequent narrowing of the margin of free income and the percentage margin of equity in land, on the basis of which the farmer could ask his banker for credit.

"Very especially has the position of the very small bank in villages been weakened by the coming of hard roads and automobiles, which, in many places, have largely destroyed the usefulness of the small local village, doing away with the local merchant, the local mill, and the local church, as well as the local banker, making it possible for the people to do their business and seek their social life in the county seat and nearby larger cities.

"Industrial consolidations, moreover, even where leaving local factories in small places, have very often taken away the banking business which the local factory gave to the local banker and concentrated it in larger places. The growth of chain stores has had a similar effect. The very small bank has had a difficult time in recent years, and the marvelous thing is, not that so many have gone under, but rather that such an enormous number have stood, and have even prospered, despite these adverse tendencies."

The Real Problem

IT is axiomatic that unless a bank is profitable it is not safe for itself and it is not safe for its community. A bank that is making satisfactory earnings can absorb the inevitable losses that occur in normal business. A bank with inadequate earnings cannot meet these normal contingencies.

The real problem, then, is broader than merely that of bank failures. Its solution would comprise the existence of conditions under which all well managed banks normally would be able to make satisfactory earnings in order to be safe as well as profitable. The economic forces that have been noted above are making it constantly more difficult for even well managed banks to make adequate earnings.

We do not see how we can change the economic conditions that are responsible for this change. They are an inherent part of the times in which we live. The adjustment, then, must come in banking.

Suggested Remedies

SOME have suggested that the remedy lies in stronger capital structures for banks in the smaller classes,—that there should be a minimum capitalization with which banks should be allowed to operate, say of $50,000. This suggestion is sound but it must be remembered that there are many communities that need banking services but yet do not furnish sufficient business to return adequate earnings on such capitalization.

Others suggest that when banks cannot increase earnings to the point of necessary profit, they must reduce overhead and operating expenses through better management. But there is a limit to reductions in expenses, there is a point beyond which this cannot go without destroying efficiency. As to improv-

ing management, I have on frequent occasions in the past paid high tribute to the elected and the appointed officers of this Association who have in recent years accomplished so much in preaching and teaching this doctrine of better management of banks. The banking fraternity in general and the unit banker in particular have profited greatly by the special conferences which have been held, the addresses which have been delivered and the truly worth-while literature which has been distributed covering this subject. But when all is said and done, there are very practical limits to the quality and quantity of banking and managerial talent and experience which the modest earning capacity of a small unit bank can command.

Clearly, therefore, there emerges this thought: Have not changing economic conditions in the United States created exigencies that cannot fully be met under our present banking organization? Are not some changes needed to adjust the banking business to these new conditions? Are there not some old laws that need to be adapted to new circumstances? Is not the remote small unit bank operating under present adverse conditions reaching a point where it is unable to stand alone and must sooner or later be integrated with the banking strength of the nearby financial center?

The Answer

THE answer to these questions must be found largely along the lines of public policy, but if we grant these premises we grant that a certain modification must be made in the branch banking picture in the United States, and we give more particular attention to this thought under our next question —Unit vs. Branch or Group Banking.

But before I pass to a discussion of that subject I want to make it clear that at heart I still hold to the same views concerning our unit banking system which I expressed in an address at the Philadelphia Convention two years ago. My sympathies still are with the independent banker and I am as much as ever opposed to the creation of a banking monopoly in the hands of a limited few. Nor have I any doubt that there still is plenty of room and plenty of opportunity for the well managed unit bank operating in a territory capable of producing sufficient business to permit of profitable operation. I also still hold to the opinion that public welfare demands the maintenance and strengthening of our independent Unit Banking system wherever its services are economically justifiable. However, the march of events of the past few years seems to draw us irresistibly toward some modification of our banking structure and I feel that if economic developments and the best interests of the public demand some changes we, bankers have no right to oppose them from any selfish standpoint. We must of course insist on very thoughtful consideration of the many problems involved before we subscribe to new theories or approve legislation which might result in the hasty scrapping of old practices and traditions which have served us well in the past.

Unit vs. Branch or Group Banking

FOR nearly two years the Economic Policy Commission has studied intensively the rapid growth of multiple banking organizations in the forms of group, chain and branch banking systems. At the San Francisco Convention last year it presented its first preliminary report. We approached the subject strictly as a fact finding body and kept our report on that basis, without expressing any opinions pro or con, but simply as an unprejudiced economic study. We are continuing our study in the same attitude and whatever convictions we may have developed are based not on partisanship but on the recognition of what we earnestly believe are undeniable facts.

Since the compilation of that first report there were for a time further important changes in certain aspects of group and chain bank systems mainly along the line of increasing the number of banks and the volume of resources comprised under this type of financial organization. Speaking in round numbers, there are now about 275 definitely known group or chain bank organizations in the United States, comprising about 2000 member banks and embracing some $15,000,000,000 in banking resources. They exist in varying degrees of importance in all except half a dozen states. It is quite likely that the growth of the group banking movement would have gone ahead even faster than it has during the past year had it not been retarded by two factors. One was the business reaction which naturally slowed down all capital enterprises. The other was the activity of governmental consideration of this movement, especially congressional hearings and legislative discussions at Washington, which caused many leaders in the group banking field to try to maintain virtually the status quo until they could determine what government action may be contemplated.

Taking multiple banking developments as a whole, that is combining group and branch banking figures, since many consider group banking really a special form of branch banking, or else simply a transitional stage from unit to branch banking, recent data of the Federal Reserve Board showed the following: There were in operation 24,650 banks. There were 3550 branches. This gave a total of 28,200 banking places in the United States. In this total, 6350 banking places were either branches or members of groups or both, leaving 21,850 banking institutions that might be definitely termed independent unit banks. These figures indicate that some 25 per cent of our banking facilities are now involved in one form or another of multiple organization of the chain, group or branch banking type. At the time these figures were compiled, all banks in the United States had total loans and investments of $58,500,000,000, of which these multiple systems held $30,000,000,000, or more than half.

"Trade Areas"

WE, therefore, cannot shut our eyes to the fact that alongside of our unit banking system, which has done so much for the development of our country, there has grown up an important new system of various multiple banking organizations. Group and chain banking on an astonishing scale, we already have with us. Branch banking has been only moderately extended since the passage of the McFadden Bill—but further modification of the laws permitting its extension within somewhat broader lines than now exist inevitably lies ahead.

Congress is taking up the discussion in a serious way. Extensive hearings have already been held before the House Banking and Currency Committee. Senator Glass has introduced a new bill which will come up for discussion at the coming session and he expects to conduct further extensive hearings on the subject before the Senate Banking Committee this winter.

The testimony already collected is very voluminous and covers a wide range of recommendations as to what should be done.

The Comptroller of the Currency officially recommended that national banks shall be given branch banking powers within what he calls the "trade areas" surrounding their places of operation in all states, regardless of state laws dealing with branch banking. That, in other words, would mean that Congress would force branch banking upon most states against their will. It would mean branch banking for the United States in every section and on state-wide and interstate lines, as against the present situation, where we have state-wide branch banking permitted for state banks in only nine states, limited branch banking permitted in eleven states, the establishment of branches on any basis prohibited in twenty-three states, and home city or community branch banking for national banks under restricted conditions in states permitting branch banking for state banks.

The Comptroller's theory is that this

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FRANCIS H. SISSON

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The Cycle of Prosperity

By ALEXANDER D. NOYES
Financial Editor, The New York Times

All Business Recessions Harbor the Seeds of Recovery. The Will to Remedy An Unfavorable Situation Usually Appears When Hope is at Low Ebb. History Shows that the Upswing, Once Started, is Rapid. Public Facing Financial Problems Intelligently.

THE eclipse of thrift and the rise of the spendthrift as a model of good citizenship were phenomena of the New Era, now one year dead. High powered salesmanship and deferred payments, says Mr. Noyes, were no recent innovations, except for the tendency to concentrate more and more on luxuries. He states that while he does not intend to "attack the principle of instalment purchases," in looking for the cause of abnormally inflated buying during the last three years and of its collapse, "the facts are reasonably clear."

WE have come to a curious turn in the economic road. Things have happened during the past twelve months in our financial and economic history, that we had taught ourselves to believe could never happen again. We had created stable values for commodities, which were to be permanent. They have crumbled with a rapidity exceeded only by that of 1920 and 1921. We had driven up Stock Exchange prices, between 1927 and the autumn of 1929, with a persistency, rapidity, and enthusiasm which appeared to indicate willingness of the most prosperous community in history to pay whatever was asked for American investments. In barely a fortnight, these stock market valuations collapsed to the level from which the speculators began to build them up in 1927.

Like a Plummet

WE had contrived new formulas for expanding credit, which were to make us independent of the vicissitudes and insecurities of other periods. In about twelve weeks after the beginning of last October, one-half of the $8,500,000,000 borrowings by members of the New York Stock Exchange had been cancelled, bringing the total of such credits back to the figure of two years before. More particularly, we had come to consider the great financial and industrial reactions of 1921 and 1907 as episodes in an older economic system which belonged to a youthful period of American finance but could never recur in our years of economic maturity. Yet here we were confronted again with the sweeping downward readjustment of the old-fashioned Cycle of Prosperity.

One of the cardinal maxims of the last three years had been that the "business cycle" was abolished; if indeed it had not always been a myth. That reactions in trade would occur, sufficient to make an occasional season less profitable than the one before, was rather grudgingly admitted; but those reactions were to be like that of 1927—four or five months of reduced car-loadings and steel production, followed by immediate resumption of the previous "boom" at a still more rapid pace. The economists were not so ready to dismiss the old-fashioned theory; yet they, too, leaned to the idea of a New Economic Era. Writing early in 1929, the President's Committee on Economic Changes remarked that the absence of "a serious crisis since 1920 or a severe depression since 1921 is no guarantee that we shall be equally prudent, skillful and fortunate in the years to come." But it added that "perhaps no serious set-back will occur for years to come" and that possibly, "in 'smoothing out' these cycles, the stage should come when alternating phases of expansion and contraction will be reduced to alterating accelerations and retardations" of a general upward trend. Yet we have only to look around now to see how far the result has differed from what was indicated even by these very qualified predictions.

There is undoubtedly a sense, not merely of disillusionment but of bitter disappointment, over the discovery that the economic world, in its larger movements of today, has been compelled to follow the same Cycle of Prosperity it followed before the war: that, except for disappearance of such spectacular incidents as money-hoarding, failures of great banks and business houses, and bidding of a premium for foreign gold, the "downward curve" alternates with the "upward curve" precisely as it used to do, and with almost equal violence. Disappointment is accentuated by the fact that this has happened despite the effort of our producers and manufacturers, after 1923, to suppress the old-time industrial speculation and restrain the old-time runaway prices for their goods.

1920 Analogy

WHATEVER may be said of Wall Street, the sober business community had not in recent years forgotten 1920, with its complete entanglement of commercial credit. It remembered how thousands of home and foreign merchants, when prices broke in 1920 and the "consumers' strike" began, canceled their orders for goods that had already been manufactured for them; how the mountains of inventories, acquired or produced when prices were at the top, became all but unsalable at any price; how "frozen credits" crippled banks and dealers in a hundred separate markets. It remembered also how industrial speculation and the excited bidding-up of commodity prices, with the prodigious borrowing of money for the purpose, had itself snapped the cord of credit and precipitated the crash of 1907 and of 1873. In the six years prior to 1929 the most resolute effort had been made by our industrialists, even when the Stock Exchange was running wild, to prevent the repetition of such a situation, and the effort seemed to have succeeded. Yet trade and industry had none the less been swept down along with the Stock Exchange speculation in the receding tide of 1930.

Distribution of merchandise by railway has shrunk to the smallest volume since the deflation years. Production and sale of motor-cars, which we had come to consider a trustworthy "barom-

eter of prosperity," fell at times to the lowest level since 1922. Exchange of bank checks at the clearing-houses, after all the country's growth in population and business activity, footed up in the middle of September the smallest for the period of any year since 1923. Average prices for commodities, as compiled by the Government's Labor Bureau, reached the lowest index number since the autumn of 1916. For three years our markets had held the firm belief that we should never see another such forced readjustment as that of 1921. Now it began to be asked: how should these things have been possible after industry's prudent policies of the past six years? May we not have misjudged the world's whole industrial recovery since the war? What hope is there for return of our country's recent great prosperity?

Picturesque Theory

TO the first of these three despondent questions there have been various answers, some of them not particularly convincing. One theory to explain the reckoning to which our industrial prosperity has been subjected, when industry had done its best not to deserve it, has been suggested by a highly practical observer. It is, that the mainstay of our recent industrial activity was the surplus earnings of the workingman, derived from his unprecedentedly high wages, and used to build up the huge consumptive demand for manufactured products, but that now this surplus had been scattered to the winds by the workingman's bad luck in the Wall Street stock speculation. This is a picturesque bit of economic reasoning. It fits in prettily with the well-known fact that so many employees of industrial concerns were caught with "exhausted margins" in last autumn's crash, that philanthropic employers sometimes went so far as to put up the necessary money to "protect the margins." It will possibly be asked, however, why the speculating workingman should alone be made the scapegoat.

He was quite as lavish a purchaser of goods in the period of illusion, 1920, when department stores and haberdashers testified that longshoremen and bricklayers were the most persistent purchasers of expensive goods. Yet no one assigned the abrupt departure of those customers as the cause for the trade reaction of 1921. If the public's misfortunes in the stock market were responsible for this present year's business depression, surely it would be only fair to include the hundreds of thousands of people of independent means who indulged in exactly the same experiment as the speculating workingmen, whose lavish expenditure in 1929 and whose forced economies in 1930, when both paper profits and private means had been suddenly swept away, were such as to make the workingman's contribution to the period's economic history fairly negligible.

Must Look Farther

THIS reversal of condition in a nationwide army of potential consumers undoubtedly had some influence. But to assign such things as contributory influences to trade reaction is a very different thing from citing them as the primary cause. Was there nothing else which, notwithstanding the much-discussed "adjustment of production to visible consumers' requirements," will link this year's experiences to the industrial reaction of older Cycles of Prosperity? Did no practices prevail in business itself, during the period of mania on the Stock Exchange, which had made the position highly vulnerable? To ask these questions is to answer them. If production had not been artificially stimulated, no one will be hardy enough to deny that consumption had been. Some of the very "mass producers" who were pointing to an output merely "adjusted to visible demand" were using every expedient known to human ingenuity to inflate that visible demand to proportions hitherto unimaginable.

It was no new idea for energetic salesmen to persuade the customer to buy more than he had meant to buy, perhaps more than he thought he could afford. Intensive salesmanship is as old as the traveling peddler of the Fifties, but it was certainly never carried to the extremes of 1928 and 1929. The picture presented in the three or four year period before last October was of consumers who were taught, with immense success and with the great applause from Wall Street, to buy with money which they did not have. Unlike the old-time "deferred instalment payments," whereby sewing-machine or piano could itself be made the productive means of meeting the debt incurred by seamstress or music-teacher, these present-day instalment purchases converged on outright luxuries.

Spend and Spend Again

CREDITS for billions of dollars were tied up in financing such operations. The salesmen were not left alone to urge the practice on an easily persuaded community. Economic writers preached insistently the virtue of spending as opposed to saving, on the interesting ground that the man who spends is helping to enlarge the activities of existing industries, while the man who saves is turning his invested money, directly or indirectly, into the building up of producers whose aggressive competition was bound to mean hard times.

I do not propose to attack the principle of installment purchases, and I am perfectly aware that "defaults" on installment contracts have thus far been surprisingly small. But we are looking now for the cause both of abnormally inflated buying in the last three years and of this year's sudden collapse of it, and the facts are reasonably clear. Economic history is relentless in teaching that the popular vice which needs correction is excessive spending, not excessive saving. It also bears unbroken testimony to the results of a race by the whole community into extravagance and debt. Not the least unfortunate circumstance, on this occasion, was the disguising of the real situation in regard to industrial production. As between production which is so far speeded up on its own account as to outstrip capacity for consumption, and production which is doubled in order to meet a visible but precarious or fictitious consuming market, there is economically not much to choose.

The eventual reckoning which production has to face is bound in either case to be the same. It extends necessarily even into the domain of prices. There is much to say for the theory cogently set forth by President Whitney of the New York Stock Exchange. This is, that the important cost-reducing processes which were applied to industrial production in the last few years, combined with the wholly unprecedented rate of increase in the world's productive facilities and output, had long ago made progressive reduction of industrial prices economically logical. But prices were held up; the Government's general average for 1928 and the early months of 1929 was practically the same as that for 1926 and 1925; with the result that, when the support of the artificially inflated consumers' requisitions had begun to crumble, readjustment in prices was sudden and extremely violent, and had to be effected almost overnight.

Perhaps a War Legacy

SO much, then, for the question how the industrial reaction could have happened. The question, asked quite as frequently, whether we may not have been mistaken as to the world's economic recovery, since the war, needs little argument. Compared with the dark days of 1921 and 1922, the picture presented in that regard in 1928, and the picture presented even in 1930, mark an achievement for the seven or eight intervening years such as never before occurred in the sequel to a devastating war. A dozen great nations, which at the earlier date had been sunk in seemingly hopeless public deficits and currency depreciation, have balanced their budgets and were meeting current lia-

bilities in gold. Industry and producing power of the European people, which in 1921 were described as completely paralyzed, have more than regained the lost vitality.

A recent computation by the Under-Secretary of the Treasury shows that the world's trade, measured in values of 1921, had decreased 26 per cent between 1913 and that year, but was increased again between 1921 and 1928, on the same basis of values, no less than 50 per cent. Production both of grain and manufactured goods, on the European continent, was in 1929 far greater than the greatest achievement of its pre-war days. Germany, the hopelessly bankrupt state of 1923, had become a sound and solvent government, cutting a figure of the first importance in the world's finance and trade. France, whose plight as lately as 1926 was such that foreign economists wrote monographs to prove that only repudiation and public insolvency could save the country from economic wreck, stands out, even in the reactionary days of 1930, as the richest state in the world except our own, with foreign credits of around a billion dollars and a reserve of gold the rapidity of whose increase has been matched in history only by the United States, during the "flight of capital" from Europe in the four years after 1920.

Compared with 1922

IT is an exhilarating picture; not less so when particular circumstances of the day had caused some countries (England particularly) to fall behind in the work of economic reconstruction, and certainly not less so because the great activities of 1928 and 1929 have been checked for the time, in Europe as in the United States, by the periodical turn in the Cycle of Prosperity. Alternating forward and backward movements, often extremely violent, were as much a part of the world's pre-war economic history as they have been in these later days. The real position of the moment should be measured, not by comparison with 1928 but with 1922.

To the discouraged watchers of last summer's markets in the United States, the picture has seemed to be somehow different. We had come to regard American prosperity as impregnable. Our statisticians had calculated that the aggregate private income of our people had been increasing three to ten billion dollars annually. We were the creditor nation of the world; the background seemed to guarantee the future. Precisely at that moment came the great industrial reaction and, as one prediction of recovery after another failed completely of fulfilment, talk began last summer to the effect that American prosperity might be indefinitely lost. Disappointment in the autumn trade revival leaves the atmosphere of pessimism unrelieved today. What can the future bring when the present is so hopeless?

It might be answered that the same dejected attitude was taken, at the same distance of time from every previous financial panic. The period of utter despondency has been as truly one phase in all past Cycles of Prosperity as the period of unlimited confidence shortly before the crash. In the summer of 1894, even Wall Street was persuading itself that the country had no financial future. In the summer of 1921, it had revived the war-time talk of a "bankrupt Europe" and a "ruined world." The predictions of those occasions never in the least came true. Three years after 1894, Europe itself was asserting that American manufacturers had captured the markets of the world. Four years after 1921, American capital was engaged in successfully financing European reconstruction, France and Germany were on the eve of their great revivals and American industry was entering on the most brilliant chapter of prosperity in its history. That is the agreeable aspect of the Cycle of Prosperity whose unpleasant aspect is just now before us. If the "cycle theory" assumes an inevitable chapter of contraction after the chapter of expansion, it assumes as an equal certainty the period of new prosperity to follow that.

Germ of Recovery

BUT this is not all. Whatever may have been the experience of other countries, it is the absolutely uniform experience of our own that the methods and qualities which have carried American finance and industry to the new heights of achievements, as soon as the cycle turned, had their actual origin in the period of depression. What changed the United States of 1878 from an importing country, as helplessly dependent on European products as on European capital, into a community whose great export surplus cut down its foreign debt and made resumption of specie payments possible? Financial history says that it was the lowering of inflated prices, the application of new energy and economy to home production, which reversed our world position, and these processes rose directly out of the panic of 1873 and the hard times of the next four years.

What brought about the American revival of 1898 and 1900, when our manufacturers for the first time captured the markets of the world, with profits previously unimagined for the very same industries which had been falling into nation-wide insolvency only four or five years before? The answer is, that our producers and wage-earners had learned the lessons taught by the panic of 1893 and by the grinding trade depression of 1894, and had outstripped Europe in the race for economical manufacture.

Change Is Swift

WHAT caused the famous outburst of American prosperity in 1925, when our markets of 1921 and 1922 had been talking of industrial ruin from the crash in staple prices and the nationwide "frozen credits"? Does any one question for a moment that those bitter experiences of deflation days were the direct and immediate occasion for the drastic economies, the increase of productive man-power, the discovery of the secrets of mass production with equivalent lowering of prices, the extension of markets on the basis of sound credit, which introduced what was for American industry at any rate a new Economic Era.

We are about to enter now on another and precisely similar chapter of experience. Let us not overlook the fact that, in all these previous epochs of revival, our industrial achievement was not based merely on application of new and aggressive methods, but on courageous recognition of the fallacies and blunders that had prevailed before the economic reckoning. If the markets of 1879 and 1898 and 1925 had chosen to revert to the reckless use of credit which was a matter of course a very few years before, if they had resumed the talk of an American position so impregnable that industry was at liberty to discard the economic maxims of the past, we should have had a very different picture. If the prediction very generally made six months ago had been fulfilled, that last spring would bring resumption of the "business boom" and the Stock Exchange speculation of 1929, the longer prospect for the new chapter of real prosperity might have been gravely jeopardized. But with all their mercurial and imaginative instincts, this is not the way in which the American people deal with an economic crisis. The very fact that disappointment of unwarranted hopes had brought the markets face-to-face with the realities of an unpleasant situation was the surest guarantee that the situation would be met.

Question for Prophets

WHEN we may look for the new chapter of prosperity, how long the present atmosphere of gloom and discouragement will last, is a question for the prophets. The mood of the markets, frightened by shadows and agonized by empty rumors, is at present of a character to prolong the period of depression. Yet the change from such a situation has in our past almost invariably come with

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Taxes Inevitably Rise

By THORNTON COOKE
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Chairman, Committee on Taxation, American Bankers Association

Constructive Understanding of the Way Public Revenues Are Spent, Urged as First Essential. Ever Broader Services Performed by Government Mean Constantly Increasing Expenditure. Levies Against Banks an Integral Part of Whole Problem.

TAXATION is not a dry subject. One's own taxes are interesting; so are one's neighbor's; and tax receipts are both financial and human documents. There is not a man, probably not a woman, who is not interested in taxation. Properly presented, it could be the most absorbing topic.

A business man — merchant — of my town and I have formed the habit of comparing our tax receipts. The first thing we learned was that neither knew much about where the tax money was going. The next was that city and county and school expenses had gone up enormously in the past few years, not only absolutely but per capita. This seemed proof positive of waste and extravagance. Our complaints were so loud and bitter that we were invited down to the city hall to talk things over with the administration. It was an interesting session, and I wish I could tell you all that followed from it in the tax education of one business man and one banker. We carried our inquiries into wider and wider fields.

How to Study Taxes

WE found that we had been right in beginning the study of taxation at the spending end. And we found that the same principles that governed our analysis of our tax receipts were valid in studying the nation's big tax account.

It is big, $9,289,000,000 in 1928, for Federal, state and local purposes, almost one-eighth of the national income. It used to be said of Germany before the World War that every peasant was carrying a soldier on his back. Now, in our country, it seems that every group of eight of us is carrying a public employee. In 1916, it took only one day's work in sixteen to pay taxes. Maybe the bill is too big, now. Undoubtedly it includes inefficiency and waste. Some people jump up and down with rage at the size of such expenditures, just as they do when they pay their own taxes at home; but that is not constructive. We must analyze.

We find then that we are constantly taking over, as communities, one function after another that was not a community matter a generation ago, if it existed at all. More money, therefore, is being spent; how is it divided? Leaving out payments for debt and interest, for they represent expenditures made in prior years, we find that highways account for about 19 per cent of public spending. Twenty-four per cent goes for for protection, which includes expenses due to past wars and provision for future wars. A full quarter of all expenditures goes for education—and try to get that proportion down. If you leave the Federal Government out of account, the educational expense is almost one-third of all.

There is in Cleveland an "Association for Retrenchment of Public Expenditures," doing, no doubt, useful work. One of its bulletins was about schools and schooling, and its title was "Sanctified Squander." In one respect, at least, the bulletin was right. The author knew, as my merchant friend and I had found out, that the place to begin the study of taxation was the expense account. An educational expense is as good a place as any. Two years ago I drove through the western part of the Texas Panhandle from Lubbock to the New Mexican line. Perhaps you know that expanse, limitless and for long miles lonely. But there were schoolhouses. Every now and then we came to a well built, good sized school, with perhaps not a dwelling in sight. Maybe a bus would be unloading the children, or picking them up to take home. I knew, of course, about school busses, but I had not seen before on a single day so many of the schools they served; and when I got back home I began a little investigation. In 1925-26, I found, 1,111,000 pupils were carried to school in this country, at an expense to the public of $35,605,000. This seems to many an indefensible draft upon the public treasury, but is it waste? The busses take the children to better schools, and it would cost the parents fully as much to get them there any other way, if without busses they could get there regularly at all. There is no economic waste in that.

Part of the complaint in "Sanctified Squander" was that unnecessary subjects were being taught in our primary and our high schools. I obtained a list of what some authority had termed "Specialized Subjects Offered in Secondary Schools." There were seventy-three of those subjects, ranging from agriculture to vocal music, aviation to weaving. All of the subjects had something to do with making a living in this modern world, unless it was etiquette, and that probably is not a hindrance. The point is that many things are being taught now that were taught to no one, or only to those in expensive private schools, just a few years ago. I had light on the matter from my own children, who came thirteen years apart. There is more difference between the education those children received than between the elder child's education and mine. And the diference is all improvement.

What can be said about the tremendous increase in the cost of schooling?

Tremendous Increase

IN thirty-five years the cost of grammar and high school education in the United States has increased from $140,500,000 to $1,946,000,000. School enrollment has increased enormously within a generation. The school term, from an average of 134 days in 1890 had lengthened to 169 days in 1925. The children were attending better, too. The average present at classes had risen from 54 per cent to 80 per cent. Then, while 1.6 per cent of the whole school enrollment were in high school in 1890, 15 per cent were there thirty-five years later, and in high schools it costs about two and one-half times as much per pupil as in grade schools. We cannot say that the cost per child per day is excessive. There are, indeed, municipal colleges and monumental school buildings that involve expenditures disproportionate to the means of some communities; but if everything that you and I would call extravagance in education were removed from the total tax burden, one could hardly notice the saving in terms of percentage of the national income.

I have taken school busses and specialized school courses just as samples of the tax increases that have been

forced upon the community by the growing complexity, yes, and efficiency, of modern life. Are we likely to spend less money on roads and bridges? Agriculture experiment stations? How, without them, should we learn to conquer the corn borer, the cotton weevil, and the other insects that contend with the human race for the products of the earth? Inspection of milk and other foods? Water supplies and sanitation? Hospitals? The decline in the date of deaths from typhoid and tuberculosis — the lengthening of the span of life—all are worth the cost. Street paving? We want more of it. Lighting? How could we face the crime wave if it were curtailed? Where, precisely, is the waste of the tax payers' money that we have been complaining about? No man alive to the requirements of modern government wants to diminish the things that taxes pay for, much as he would like to reduce his taxes.

All this time we have been thinking that expenses and taxes could be reduced by modern budget procedure. Something could indeed be done that way. The Federal budget is a vast improvement. By its aid, and of course because of the cessation of direct war expenses, Federal taxes have declined until they are little more than half of state and local taxes. Obviously, our tax problem is at home, and it is good to see that a number of states, too, are profiting by the budget. To mention only two, budgetary control in one year saved North Carolina 10 per cent out of its legislative appropriation, over $1,250,000. Pennsylvania, in a recent biennium, by reorganization of governmental machinery and budgetary control, saved $24,000,000. The procedure should become general; but, just as states and municipalities seem to expand their budgets as fast as reductions of Federal taxes become possible, so they seem to find new uses for all the money saved by their own economies. No thoughtful business man can doubt that one new, desirable object of public expenditures will follow another, nor that expenditures will continue, of necessity, to increase.

What Next to Tax?

THAT means more taxes, but where are they to be laid? My business friend agrees with me that the property tax should be increased no further. It has been too long, already, an incitement to evasion, a penalty for success and a brake on progress. It is not very effective either, except upon real estate and bank shares, and there it has become, in too many instances, intolerable. Mr. Ford, being asked one day last spring what was the matter with farming, borrowed a sheet of paper from the reporter and wrote on it one word, "Tax." Over emphasis, perhaps, but there was foundation for it. Ex-Governor Paulen, of Kansas, told a gathering of bankers about the same time that excessive taxation of the shares of Kansas banks had held down their capitalization and their surplus, and so, in his opinion, had caused more banks to fail than any other one thing. Bankers from many other states reported like experiences.

We have now worked up, in our analysis, from the expenses to the source of the money; and the conclusion is inescapable that, in most states, new objects of taxation must be found. What shall they be? There are some things that are not taxed now. In most states intangible property escapes with little tax or none. It is too hard to find. It is a kind of property that did not exist in any considerable volume at the time our scheme of taxation was growing up. The flour mill was then a small water-power affair, owned by the miller himself. Now, it is a structure costing millions to build and equip, the millions furnished by hundreds of people who have bought its bonds and stock. The mill is taxed on its real estate, and perhaps on its machinery, it is true. But are not the stockholdholders and the bond holders able, themselves, to contribute to this great co-operative enterprise of government? And if they are able to contribute, should they not do so?

Why Not Income?

IF those are right, who in practical fashion have been analyzing public expenditures and income, and have concluded that additional sources of revenue must be opened, what is the best way of reaching the great mass of intangible property whose owners have not, hitherto, made suitable contributions to the public purse? The success of the Federal Government and a number of our most important states with the income tax seems to answer the question. Levied upon each in accordance with his ability, as well as that ideal can be attained in the complexity of human affairs, what reason can be adduced for not so taking from the owners of intangible property —bonds, mortgages, notes — scarcely reached by taxation in most states now, a ratable part of the income from such securities? We can all agree, can we not, that taxation should not be paid out of capital? That would be to deplete the nation's productive forces. Then it must be paid out of income, and usually it is. Why then, should it not be paid in proportion to income? My business friends have found no answer to that, and agree that the greatest promise for simplification, efficiency and justice in state and local taxation lies in the field of income. The instinct for equality is inherent in the minds of men.

Some fear that the income tax will frighten industries from locating in the states that have it, but let us consider. Four and a half per cent is a typical state income tax rate. Several states have it. If labor and raw material conditions in a given state are attractive, are corporations deterred from coming in by the fact that they can retain for themselves only 95½ per cent of their profits? I do not find that they are. Perhaps, indeed, they are glad to know that, if they do not make any money, at least they will not have great taxes to pay, in the few years it takes to get a new industry going.

Concerning Banks

THERE is another way, of course, by which intangible property can be reached. Some states tax its capital value at three, four, or five mills on the dollar. It is not so efficient a way as taxing the income. Evasion appears to be easier, and so far it has been difficult to obtain state sanction for Federal legislation so drawn that these low rate taxes on some intangible property could be continued without making them applicable to bank shares, and that the states do not want.

Also, we shall undoubtedly increase the number of articles specifically taxed, theatre admissions, cigarettes, oil produced, timber cut, coal mined, and the like. There are advocates of a general sales tax, but practically it seems unlikely to be adopted.

This discussion is all in point here, because long ago most of us learned that the question of bank taxation could not be settled by itself. It is bound up with the whole tax problem. To solve that the time here is all too brief. What taxes should be, how controlled, how imposed, each must conclude for himself; but following are the necessary, the inescapable premises.

1. It is a question of attitude. Bankers and other business men can no longer rail at public expenditures merely because they increase, nor without first making the same, thorough analysis they would make of any other important business problem.

2. Aggregate expenditures will not come down. Under the sound requirements of modern government, it will inevitably go up.

3. Justice and expediency both require that tax increases be not imposed upon those who have so far borne the major burden; but that new sources of revenue be sought out.

What those sources shall be, perhaps we cannot yet fully know. But as bankers and business men we can know the facts, and recognize the trend that progress takes, and assume toward the problem of taxation the constructive attitude of understanding.

The Drift Toward Confiscation

By FRED W. SARGENT
President, Chicago and North Western Railway Company, Chicago

Legislation Wearing Away Property Interests with Little Consideration for Railway Investors. Government Takes Business but Makes No Compensation. Taxes Mount, Menacing Balance of Greatest Industry. Little Room for New Economies.

LABOR never had a wiser or better friend among the statesmen of the world than Abraham Lincoln. Indeed, in one of his messages to Congress, Lincoln said, "Labor is prior to and independent of capital. * * * Labor is the superior of capital and deserves much the higher consideration."

Many modern statesmen have attempted to express the same thought by saying that we should always place personal rights above property rights. It is entirely possible that many who adopted this slogan have been inspired to do so by the phrase quoted from Lincoln's message to Congress.

Those who think thus far and no farther fall into the serious error of not thinking the subject through as did Abraham Lincoln. While Mr. Lincoln did say that labor is the superior of capital and deserves much the higher consideration, yet he also said, "Capital has its rights which are as worthy of protection as any other rights." Lincoln, by his various speeches and his wonderful policy of governmental administration, clearly demonstrated that he recognized the fact that one of the highest personal rights and one of the most valuable rights is to enjoy and own and be secure in the ownership of property. To merely say that personal rights are above property rights is to indulge in an idle platitude, because the right to own property, the right to enjoy property, the right to be secure in that ownership and enjoyment is in and of itself an indispensable essential to personal rights. To put his own position beyond the possibility of misunderstanding, Lincoln produced one of the finest pieces of modern literature and philosophy when he said, "Property is desirable, is a positive good to the world. That some should be rich shows that others may become rich, and hence is a great encouragement to industry and enterprise. Let not him who is houseless pull down the house of another, but let him work diligently and build one for himself, thus by example insuring that his own shall be safe from violence when built."

In this beautiful paragraph, Lincoln summed up the entire philosophy of the people of America when they embodied these safeguards which are found in the constitution of the United States and in every constitution of every state composing the union. The fifth amendment to the constitution of the United States provides among other things that no person shall be deprived of life, liberty or property without due process of law; nor shall private property be taken for public use without just compensation. And the fourteenth amendment to the constitution of the United States provides that no state shall deprive any person of life, liberty or property without due process of law.

Recognizing the fact that bad times make bad laws and that the history of every country has demonstrated that there is always a great temptation on the part of the majority to so legislate that the property of the minority may be destroyed without compensation, we have provided in this country a system of courts of justice, charged among other things with administering the provisions of our constitutions, to the end that the fundamental rights therein defined shall be sacredly observed.

The members of our various courts of last resort, having taken oaths to obey the Constitution of the United States as well as the laws of the land, have, generally speaking, been most loyal to the trust thus imposed in them.

Slowly Confiscating Property

BUT there has grown up in recent times a class of legislation and a method of procedure that is slowly but surely confiscating property in a manner which probably cannot be reached by the courts. Section 8 of Article I of the constitution of the United States gives Congress the power to lay and collect taxes * * * and to provide for the general welfare of the United States. There is no limitation upon the amount of taxes which Congress may assess against the people, such as is frequently found in state constitutions, and the term "general welfare" is so broad that in almost every instance the subjects coming within its purview are left to the determination of Congress. The result is that through this unlimited power of taxation we see gradually growing up a constantly enlarging class of legislation that is confiscating property of certain classes of our people and without providing at the same time for any just measure of compensation.

How refreshing it is to study the life of Abraham Lincoln and realize that he lost no opportunity to emphasize the importance to his mind of preserving sacred those provisions of the constitution which prohibit the taking of property without due process of law and without just compensation! For instance, slavery never had a more bitter enemy than was Abraham Lincoln. Notwithstanding his hatred, however, for the institution of slavery, he constantly maintained that Congress under its civil power could not emancipate the slaves without providing compensation therefor to their owners, and he asserted that such emancipation could only come about as a war measure. At one time in a heated discussion with one of the United States Senators on this subject, he said, "I conceive that I may in an emergency do things on military grounds which cannot constitutionally be done by Congress." There has, however, in recent times been gradually developing a method of confiscating property without compensation, under the tax and general welfare clauses, which probably avoids protection that would otherwise be given through the courts.

If we were to enact a law which directly and in plain language suggested that it was the policy of Congress of the United States to destroy a legitimate and established business of middlemen or of warehousemen or of established transportation companies, and under such a law we should proceed through the police power to close such institutions and deprive them of their otherwise legitimate earnings, no doubt the public conscience would be shocked and the courts would intervene. When, however, we use the unlimited resources of the Government to furnish capital to compete with legitimate industry and when through a process of governmental regulation we indulge in the gradual but sure process of confiscation through indirect action, the public accepts the same with a complaisant mind, notwithstand-

ing the fact that this latter process is as clearly confiscation as any that might be indulged in through direct action. It may be that the general welfare requires the acts of legislation to which I refer, but if it does, then it should only be under provisions that will accord full compensation to those men and those industries and those investors that are required to make the sacrifice in the interest of the greater good.

Interferes with Private Business

I RECOGNIZE full well that when capital launches upon any undertaking it does so at its own risk, but the risk it assumes is one incident to the business and the ordinary laws of economics. Never had such investors the right to assume that their own Government would either directly or indirectly use the power, the authority and the resources of the Government to interfere with or threaten their security. When, for instance, the Government of the United States, through the use of the taxpayers' money, provides facilities to afford free storage of commodities moving in water transportation and thereby interferes with the business of legitimate capital invested in storage houses along the shores of the Mississippi River, it is confiscating property as surely as if it arbitrarily and through the exercise of police power padlocked the doors of private warehouses or placed police officers within such buildings to prohibit customers from using the private facilities, and this is true whether it completely destroys the business of private warehouses or so reduces their earnings as to interfere with legitimate profits that might otherwise be earned under fair and honorable business practices and legitimate private competition. It may be that the public welfare requires the development of inland waterways.

We may assume for the purpose of this discussion that the public welfare requires the development of inland waterways at public expense, but when the Government uses the taxpayers' money to furnish the capital and to afford rates that will materially interfere with the investments of thousands upon thousands of our people in other forms of transportation, it is as clearly violating the constitution of the United States as if by direct legislation it so reduced the rates of the railroads that they could not under honest, economic and efficient management obtain a fair return for honest investments. This subject has now reached the stage where it demands the honest, fair and clear thinking of the business men of America.

Major General Ashburn, at the head of the Inland Waterways, was some short time ago publicly quoted as saying:

> "I am going to obtain for the great Western shippers of America fair markets or transportation rates, and we will take that traffic away from the railroads unless they reduce their rates."

I have never seen this quotation refuted and assume that the General was correctly quoted. Whether he was or not, the statement clearly defines what has been the attitude of the Government on this subject up to the present moment.

The position of the railroads is and always has been that in line with all other industry they must meet changing economic conditions, but they never had the right to assume that their investors should be deprived of a fair return by virtue of taking from them tonnage upon the rivers and highways through Government subsidy or operation; nor should they be deprived of a fair return through a process of constantly nibbling the rate structure of the country to a point where it is impossible to earn upon the investments a reasonable and fair compensation commensurate with the hazards involved and the earnings of capital in other industries. At no time since the close of the World War and since the passage of the present Transportation Act have the railroads of the Western District been permitted under any rate structure approved by the Interstate Commerce Commission to earn a fair return even upon the tentative value of the properties as that value has been fixed by the Commission.

Revenues Menaced

IN the light of this situation the railroads now find their present meagre revenues seriously menaced by recent rate decisions of the Interstate Commerce Commission and by other forms of transportation directly subsidized out of the taxpayers' money. It is very easy for those not charged with the responsibility of payrolls or fixed charges upon bond issues or dividends to stockholders to say that you will help the railroads by taking away their tonnage and placing it upon Government operated barges. To my mind it is mighty difficult to understand how Government operated barges will increase the agricultural acres of America or the fertility of the soil that produces crops. It is difficult for me to understand why the railroads should be compelled to compete with their own Government in the making of rates in order to hold the heavy commodities to the rails, and it is the heavy commodities that constitute the great bulk of the traffic of the western railroads.

Bankers have a direct and very vital interest in this subject. It is safe to say that the total amount of railroad bonds of all classes outstanding in the hands of the public is somewhere between $12,000,000,000 and $13,000,000,000. Many of these are owned by trust companies and banks, including savings banks. At the present moment their future is seriously affected by the depressed and depleted earnings of the carriers, and in the face of this situation we find orders issued, and applications being considered, which, if granted, will again in a most emphatic and dangerous way continue the process of rate reductions that has taken place in the western territory since 1921. The railroads recognize the fact that they have no right to complain about transportation of natural gas over long distances that will compete with coal, for this is a natural economic development, being done under a process of private investment and is a condition that the railroads and their investors must face and are required to assume in the conduct of their own business. The same applies to the transportation of gasoline by pipe lines, which will deprive railroads of an enormous amount of tonnage. These are evolutionary processes similar to those that confront all classes of business from time to time in this changing world of economic development. While they will have a serious effect upon rail tonnage and revenue, railroad managements and their investors have no right to complain, but we have a right to ask in all good faith why we should be compelled to compete with our own Government, that is financed in large measure by our own money paid in the form of taxes. To my mind this drift toward Government in business is a thing that no legitimate business ought to be required to contemplate, and its ultimate effects will in my opinion be most disastrous to the economic and industrial prosperity of our country.

Recently the legislature of New York passed a law which makes the bonds of railroad companies unavailable for savings bank investments except and unless there is earned in each fiscal year one and one-half times the fixed charges. In an effort to avoid the future unfavorable effects of losing this market for railroad bonds, many of the western railroads are now in the midst of a desperate struggle to maintain their earnings throughout the current year. To this end, many have reduced maintenance charges far below what they ought to be in the interest of future adequate transportation and to the great economic loss occasioned by the failure to purchase materials and to give employment to labor at the very time that these things are so essential to help overcome this cycle of depression which now holds the entire world in its grasp. And while the roads are making this desperate struggle, they find themselves looking to the future in an effort to ascertain what future years hold in store, and they see their own Government, at public expense, subsidizing waterways and the highways, to the end,

if successful, that great quantities of heavy tonnage may be hauled upon the rivers for the greater distances and upon the highways for the shorter distances. No one has a right to complain of legitimate competition in the field of transportation. The public is entitled to the best transportation at the lowest possible cost, but is not entitled to this through a process of governmental action that utilizes the power of the Government and its unlimited resources to do things that could not be done by private undertaking and private investment. To even threaten the validity of the vast volume of railroad securities now in the hands of the public is in and of itself a menace to the future prosperity of America.

Crippling Greatest Industry

FORGETTING for a moment the final calamity that will overtake America if the present attitude toward its railroad securities is continued, permit me to say that the railroads constitute the greatest single industry in America. They and the companies directly dependent upon them for business are our largest contributors to prosperity. The great bulk of the money which the railroads collect is immediately paid back to the people in the form of wages, taxes and in the purchase of supplies and materials. The mass of the people cannot afford to have such an industry crippled by refined and metaphysical reasoning founded on premises that seem to require the constant nibbling away of its rates and a threat to its tonnage through Government subsidy.

The railroads must be permitted to earn something more than merely enough to pay interest on their bonds and a sufficient return to their stockholders. They must be permitted to earn a surplus in good years to tide them over periods of depression, and they ought to be permitted to earn a sufficient surplus every year to take care of those capital expenditures of a public character which in and of themselves add nothing to earning capacity.

The statements I have made must not be construed as an argument against the development of our highways and inland waterways. Rather, I am trying to make clear the loss that the rail transportation lines are sure to sustain during this development period.

It must be admitted that either the subsidized waterways and highways will take a considerable part of the traffic away from the railroads during and after the development stage or they could under no circumstances be justified. The argument against this is that the inland waterways especially will so develop the industrial activities of the country that in due time there will be sufficient tonnage available to rail companies to more than offset the loss due to waterways. Whether we agree with this prediction or not, let us grant its accuracy for the purpose of discussion. It must, however, be conceded that in the interim, during the development stage and awaiting the coming of this new traffic due to increased industrial activity, a very large tonnage is and will be taken away from the railroads of the West that now so seriously need it. This tonnage is being diverted by governmental support and governmental activities. In the meantime, it is having its effect upon the gross earnings of the carriers. The Government cannot through the process of a subsidy provide a free roadbed for the transportation of the heavy commodities of the West up and down our waterways and maintain earnings of the railroads without requiring a higher level of freight rates on the commodities that are left to the railroads in the interim and until the new traffic which our waterway advocates assert will come has actually materialized. The present development must concededly be made at the expense of depriving carriers of a considerable amount of tonnage that will in a considerable measure affect their already depleted earnings, which have been so low that in no year since the passage of the Transportation Act have they been able to earn a fair return upon the investment. I am making no argument against inland waterways and no argument against the development of transportation upon the highways. We concede that the public is entitled to every means of transportation that can be economically justified.

Cease Rate Reductions

IT is hard, however, to see the justness of that point of view which asserts we must protect our properties against Government subsidized competition during that transitory period of greater industrial development, without some measure of compensation to offset the losses that are surely being produced. One thing that we ask is that the Government cease and desist for a while from the processes of rate reductions that have so continuously taken place since 1921. The other is that the rates be so readjusted that the carriers can survive and produce a reasonably fair return to their investors. This means that there must be an upward instead of a downward adjustment of rates on those heavy commodities the tonnage of which is in some measure taken from the carriers to support the Government operated waterways. In other words, a railroad is no different from any ordinary industry. What it must charge for its product depends in large measure upon the volume of that product. As the Government takes from us the movement of wheat, coal, fabricated steel, cotton, sugar and other commodities in order to move them via water, it should recognize the importance of a better scale of compensation for the tonnage that remains, and especially is this true until such time as the tonnage is replaced by the greater internal industrial developments which our waterway friends insist will come about in due time. There can be no disputing the question that in the interim the experiment is being made largely at the cost of the rail transportation systems.

Rates Reduced; Taxes Increased

VERY recently the Interstate Commerce Commission handed down a decision in the Grain and Grain Products Case reducing earnings of the carriers in the Western District, as estimated by some of the members, amounting to $15,000,000 per annum, but as estimated by the carriers would run somewhere from $20,000,000 to $30,000,000.

While the processes I have attempted briefly to describe looking to the reduction of carriers' gross revenues have been going on, they have also been confronted with serious handicaps on the other side of the ledger looking to their expenditures. Since 1921 the cost of operating railroads has materially increased. Labor is about twice as costly as before the war, taxes more than twice as great, and material costs probably 60 per cent higher, and even in a period like the present we find our taxes mounting in a dangerous way.

Not only have the railroad presidents looked upon the present situation as one that demands energetic and drastic immediate action, but the Security Owners Association has just published a pamphlet to the organized security owners of railroad stocks and bonds which they have entitled, "A Nationwide Emergency Exists." In this pamphlet they point out some of the things I have attempted herein to cover.

With reference to the subject of taxation of railroads, it is interesting to note that in the last four decades our national wealth has increased almost 500 per cent; our national income has increased over 500 per cent; railway property investment has increased 200 per cent; and railway gross income has increased about 500 per cent, but railway taxes have increased 1220 per cent, while other than railway taxes have increased 952 per cent.

Since 1911, which year I take because it was the beginning of uniform railway accounting prescribed by the Interstate Commerce Commission, the rate of increase in taxes has been more than double the rate of increase in gross earn-

(*Continued on page* 375)

The World in Transition

By FRED I. KENT
Director, Bankers Trust Company, New York
and Chairman, Commerce and Marine Commission

Political Charlatanism Is Threat to Masses Recently Brought Under Influence of Education. Intelligent Men of Community Must Share Their Knowledge by Participating More Vigorously in Public Service. Depression Not Curable by Vote Chasers.

FIRST steps in education usually result in a sublime confidence in one's ability far beyond his powers, a state of mind that can only be cured by further education.

Young students would rule the universe whether they are children in schools and colleges or adults coming out from under a cloud of ignorance. The same urge exists in many whose lives have been given to art, literature, and theory to the exclusion of the practical, and regardless of their competency in their chosen vocations their ideas of government are too often tinged with red and the impossible.

A Little Knowledge

SUCH individuals are the natural prey of demagogues whom they will follow until education saves them or disaster overwhelms them. And yet, dangerous as this condition may seem, it means progress in the end whether further education is received through suffering and distress or through a better understanding of the lessons of experience that may follow the acts of the more intelligent.

Today great groups of people in many lands are in the early stages of education—that period wherein they are a menace to themselves and to all others. They are ready to follow the half-baked theorist, the impractical idealist, and the demagogue wherever they may lead. The proportion of such groups to total populations has increased enormously in many nations since the war. This has been brought about through those discoveries in science and improvements in industry which have brought the automobile, the aeroplane, the moving picture, the radio, and numberless conveniences which can be manufactured in sufficient units and at low enough cost, to enable multitudes to utilize them. Unfortunately desire has spread more rapidly than well-balanced intelligence. This was inevitable under such a deluge of new and strange powers over the forces of nature as have been given man in a moment of time and that have been broadcast over the earth.

Life has become more and more complex, yet the people have been induced to try to solve their problems by force of numbers instead of through the exercise of judgment based upon experience. Government has thereby fallen into incompetent hands in many quarters and, in consequence, respect for law has been dissipated. The record of laws passed to accomplish the impossible is amazing, and yet so alluring is the word "government" that many who demand less law usually end up by asking for more law in order to meet their intent.

The underlying thought in all this is really a desire to be free from law personally while having plenty of law to control the other fellow.

Thus we see men and women striving to upset governments while at the same time demanding protection from those self-same governments for their unlawful acts. The spirit of pity is so strong in humanity, however, that the public, ignoring or not seeing the absurdity of the demand for protection under such circumstances, sympathizes with the law breakers to its own detriment. Recognizing this failing on the part of the public, those who would destroy government play the people against themselves and those who would live in defiance of law and the rights of others have succeeded in having law and procedure become so involved that they can escape from wrong doing in tremendous proportion.

The Vote Getters

SUCH a situation measures the intelligence of the people and clearly shows that they are still far from being able to cope with the complexities of modern civilization. They have the vote, but give it to the inefficient against false promise.

See what the direct primary has done to the Senate of the United States. Loyalty to party in many cases has been thrown to the winds except when useful for election purposes. Instead of those of the same party from the East and from the West working together to find the common ground that will best serve all of the people, coalitions are created between those of opposing parties to play the West against the East for no apparent reason unless it be political power, whereas the Constitution of the United States demands that the Senate act for the "general welfare."

Votes are striven for by attempting to arouse popular feeling against some seemingly vulnerable industry with the expectation of ham-stringing it for political purposes. See what has happened to the railroads and notice what is now being attempted against the public utilities.

It is more spectacular to "get men" than to correct abuses and therefore the politician is out to "get men." Thereby he often discredits an industry to the detriment of the people and misses the opportunity to correct, without harm, abuses which in rapidly growing industries often arise from speed in development because of public demand and not from wrong intent on the part of any man.

Attempts to tear down the dignity of American citizenship behind the cloak of immunity should be subject to impeachment even in a senatorial body. Business men have among them those who would knowingly and intentionally do wrong but they are the exceptions, and the politician who only sees crookedness in industry must be reflecting his own personality.

Some Good Public Men

THERE are men of the highest type in government in spite of our unintelligent way of selecting them, and many who are well meaning but ignorant. One of the main difficulties lies in the fact that work well done too often results in repudiation by the people, whereas ignorance or viciousness sometimes wins again and again. It must also be borne in mind that honest differences of opinion exist among men of all degrees of intelligence.

Infallibility in judgment is not a human attribute. Experiment is often necessary before the best way of accomplishment can be discovered. When history has proved some condition, further experiment is waste. It is here that intelligence counts. Those whose lives have been spent without knowledge of previous or outlying developments surrounding the inter-relations of men can-

not be expected to render sound judgments, even as the judgments of humanity go, when first brought into the light of education.

True intelligence begets tolerance and the uneducated are intolerant. The world today therefore is facing an important crisis in its history because of the great groups of people who have just entered or are entering into the early periods of education. The confidence of multitudes is greater than their intelligence. They are following dangerous minds.

Nevertheless, this awakening is a marvelous thing and if those more advanced in education can give of their knowledge so as to ward off disaster as we move onward, we should soon approach a wonderfully interesting era. It is upon production, trade and commerce that all people must live. Density in population has increased beyond the point where each family can be sufficient unto itself in the production of man's necessities.

Farmers in isolated cases can come nearer to maintaining the lives of their families through their own efforts than other classes of workmen, but without any exchange of their crops for the production of other men it would be a mere existence and not a full life. Nothing cultural could reach them; books, music, all the arts and sciences would pass them by. Mere physical existence would not pay for the effort to live.

Humanity Needs Liberty

IF government could successfully standardize all things for all men—as some people seem to advocate—without God or home, we would enter upon a period of mental stagnation; mere physical existence and oblivion. But this cannot be; human nature could not stand it for long. Then why should we try any such experiment?

Liberty is the need of humanity and liberty cannot exist unless we respect the rights of others. Those coming into education cannot demand the world for themselves at the expense of every one else nor can any other class. In striving for liberalism, we cannot expect to win through abuse. Sound liberalism expresses the wish of growing intelligence. But it means fair and just opportunity for all free from oppressive laws and customs. To broaden the lives of all men and not to narrow them is what we desire. How can we accomplish such a purpose?

We must find ways to effect a growing distribution of the conveniences of life and of opportunities for culture and spiritual understanding. Industry must be protected from the political charlatan and men must be protected from industrial abuse. This will require cooperation between honest and able legislators and honest and able industrialists. The world is full of both but neither can effectively give of his knowledge until the people are willing to weigh with greater care the acts and words of those who would govern them.

At the moment the whole world is passing through a business depression. Its arrival was inevitable with present understanding. Its intensity has been accelerated by the acts of some men and ameliorated by the acts of others. Its duration will also be increased or diminished by the acts of men. Such acts will take form in so far as government is concerned through the attitude of peoples toward those already in government and in their selection of others to replace them from time to time.

Which Will They Choose?

PROGRESS in education of the great groups who are first coming into a broader understanding of life will determine the trend. If they split into parties representing principles that appeal to them individually the opportunity to test such principles will develop in an orderly manner. But if they follow those who would lead them en masse through promises not possible of attainment only trouble can be expected.

The world is full of evidence of such developments. The unemployment situation in Great Britain, Germany, and Australia has undoubtedly been greatly accentuated by attempts to follow methods which carried an appeal to men's sympathies, especially to labor. In the United States labor has moved forward further in general understanding of the great harm that can fall upon labor if politicians are allowed to experiment with it. Yet men seeking office in this country are doing so by trying to attract labor with promises regarding care for the unemployed or the disruption of some important industry or industries upon which labor may depend for employment and for life's conveniences.

The unemployment problem must be solved. It is a terrible strain upon humanity and inevitably leads to injustice. It cannot be solved, however, by those opportunists who would use the unfortunate situation of unemployment in order to further their election to office. Neither can it be solved by those writers who pretend to great idealism and yet strive for space by trying to arouse the baser instincts of man.

If industry cannot sell its products, it cannot pay men for producing them. If labor is only partly employed, it cannot take care of those who are unemployed. If government, because of depression, cannot increase taxes, its ability to help is curtailed and in any event the payment of men by government for doing nothing inevitably leads to disaster. It means in the end that those who will work must produce food, clothing, shelter, and conveniences that government gives to those who will not work, as with pulls and preferences growing numbers slide into the receipt of government doles.

Doles Add to Depression

THE problem must be solved by conferences and cooperation between industry and labor, and the bringing in of government in such manner as may be found advisable. American labor has shown great intelligence in the consideration of this matter, and many American industries are trying some very positive experiments aimed to protect their labor during periods of depression. Unemployment doles have proved themselves to be accelerators of depressions and should they become general they will certainly increase the duration of depressions.

The present world depression had many causes and many developments which accelerated them. The principal direct cause was overproduction. This in turn was partly the result of an increased capacity to produce that exceeded the rate of increase in capacity to consume. Capacity to consume had grown tremendously as great groups of people received knowledge of many things whose lowered cost, because of growing efficiency in production, encouraged desire as these things seemed obtainable. Increased desire led to increased effort to develop purchasing power and resulted in a marvelous widening of markets.

But no man could measure the pace, and probably about June, 1929, or shortly before, the markets for certain goods began to slacken, although the momentum of production carried on. Some acceleration was given to the developing situation by the long delay in tariff legislation in the United States which caused great uncertainty in business in many foreign countries as well as in America. This had a tendency to stop both consumption and production, although one of its worst effects was to create an unfriendly foreign feeling where fear of losing the American market was engendered and continued over such a long period of time. It was also most disturbing to American industry.

Russia, China and India

WITH the great Russian nation outside of the economic concert of nations; the trade of China broken by the frightful conditions existing in that country; the commerce of India curtailed by agitation; and the peoples of many other nations trying to make taxation take the place of industry, is it any wonder that the great international exchange of commodities has fallen and that a world depression exists? Under-

lying it all we find the encouragement of great hatreds by unfortunate men to be a principal cause. An important part of the world has responded to such efforts and the result has been a tremendous increase of the difficult conditions that business must normally face. It is impossible for men to solve the problems of life during the high tide of hatred. Fortunately American industry has seen this, and our great industrial leaders, competitive as well as non-competitive, have been working together during recent years for the benefit of all.

This is one of the most encouraging signs of the times, particularly as it is reflected in the International Chamber of Commerce, which has within it representatives from forty principal countries of the world.

The political agitation of our agricultural situation undoubtedly stopped the normal flow of grain from this country and concentrated the surplus in our hands. Held by many interests, this surplus would not have been as serious and the situation would have been more natural and less strained to all concerned. Humanity has not yet reached the point where its highest current intelligence can be utilized for its protection. It is not yet possible for men to maintain the curves of prosperity and depression within the bounds of general living comfort. We cannot yet so measure production and storage as to prevent overproduction and underproduction.

We have not yet been able to find a way to attain that stability in prices which seems so essential to greater stability in the lives of men.

Wonderful Remedies

THOSE just entering into education often think they see wonderful ways to accomplish these things because they have not sufficient understanding to see all sides of the problems. Every attempt by government or groups of men to ignore the laws of supply and demand has failed.

Undoubtedly without exception such attempts, when applied to commodities where there has been an overproduction, have resulted in greater disaster than need have followed because men were encouraged to increase such overproduction. Such failures do not yet seem to have carried their lessons to any important proportion of the people. Those who advocate the panaceas continue to find sufficient adherence to their policies to encourage them to create new schemes which in turn make possible continued overproduction, by paying those who take part in them from the surplus of others.

There is reason to believe, however, that the chain of such operations is resulting in a better understanding on the part of a growing number of men of the principles involved. They are beginning to see that the problem we would solve is how better to control production and not how to make continued overproduction profitable. While this is of value, it seems a pity that it is necessary for humanity to demand so many disastrous experiments to prove the same thing. It all gets back, however, to the new groups of people who are being brought under the influence of education in such great numbers and who are not willing to listen to reason but are still subject to the ignorant or those of wrong intent who would lead them.

The present crisis in the United States has developed two comparatively new but important ideas. They have to do with the attempt to utilize public works in an orderly manner so as to furnish employment over the depression period, together with an organized effort to accomplish the same thing through capital expenditures by those industries which can afford them. These developments, aimed to protect all of the people during a time of difficulty, are most encouraging as they show concerted action on the part of many men of great intelligence.

Must Be Paid For

WE must not lose sight of the fact, however, that increased public expenditures mean increased taxation today or in the future; that the financial difficulties of the moment mean that increased taxation must increase existing stress; and that increased taxation to future generations is not justified to protect present generations from a temporary business depression unless the character of the public works is such as to afford the future generations, who may be called upon to pay for them, with conveniences equivalent to their cost.

Again, public works undertaken for such a special purpose, to be successful, must be controlled by some source having access to statistical knowledge covering total works and combined business progress.

But with full knowledge public works carried on in a great general way would be difficult to taper off when desirable even if there were no political forces, and while man is man such forces are going to exist. The control of political forces for the benefit of all is one of the great unsolved problems of humanity.

Industry, too, must watch its step when carrying out capital expenditures to offset business depressions. If construction is provided that is not needed until too far into the future, a double loss may ensue, as there will be depreciation on one side and loss of interest on the other. Again, the lack of opportunity to carry on such construction at what might be a more normal time for its development might result in unnecessary unemployment at such time.

Meeting the effect of great overproduction is therefore not so easy as it might seem. It is often stated that in so far as the world's wants are concerned we have not yet had any overproduction, for there have always been those who have been in need but who could not obtain the things which they required and which were actually in existence in some place in the world.

Must Exchange Goods

SUCH a situation is inevitable at the present point of progress. It must be borne in mind, however, that there is a far greater distribution of goods to multitudes of people today than ever before, and that distribution is broadening constantly and reaching an increasing number of individuals. We know of no way yet to accelerate such distribution, although many plans are being offered to the people for their favor which, if exercised, would stop such progress as is being made. It must be realized that those who are caught with an overproduction in the creation of things in which they have a part would meet with no relief if they were merely turned over to certain others in the world who might need or desire them but who could give nothing in return for them.

Our effort must be to find a means to enable those who are not in position to give value in exchange for value, to do so. If we would fully comprehend the nature of the problem of overproduction, let us suppose that the whole world were in position to buy what it wanted; then that there is an overproduction in many things that nobody needed nor wanted. The action of the law of supply and demand is now more clearly seen, and the futility of encouraging the continuation of the overproduction is self-evident. It would have to be absorbed over such period as was necessary for consumption to eliminate it during reduced production.

The problem of overproduction is not one that has to do only with human needs, but it is measured to a tremendous extent by human desire. We must conclude that progress can only be made in one of two ways—either through knowledge obtained directly by suffering and disaster that show the falsity of experiments wrongly advocated and blindly followed, or through education gained by moving onward step by step with patience and full recognition of the lessons taught by history.

The way of the world has been to make progress largely through the first means, which has unfortunately meant constant repetition in different genera-

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Dead Souls

A FAMOUS Russian novel of some years ago is "Dead Souls," which takes its title from the scheme of a native adventurer to gain place and fortune.

Before the emancipation of the peasantry from serfdom, the government imposed upon the landowners a head tax for each serf. They called them souls, though to all accounts the serfs were a soulless lot. The tax was based upon a census taken every ten years and no allowance was made for changes occurring in the decade. Thus, though an epidemic of disease might carry off half of a farmer's hundred serfs right after a census was made, the unlucky owner would continue to be taxed for the dead for the ensuing ten years.

The adventurer, having neither land nor serfs, quietly went about and persuaded people to sell him their dead souls—not a difficult thing to do since it relieved them of an unjust tax. The list of his serfs thus acquired placed him among the important people—until the truth came out!

Grimly droll and horribly grotesque, of course, and an utterly useless proceeding on which to spend one's time and thought!

Nowhere but in Russia could such a thing be done—you say! But there is something of the same thing going on here in America. There is a lot of collecting of dead souls in our educational system. History is useful, biography is useful, the fine art courses and the classical courses give culture, discipline and usable information, but in our study courses and in our reading, we are in fact collecting many dead souls on which we pay valuable taxes in time, attention, energy—not until the next census but all through life.

Collecting knowledge of ancient civilizations and the causes of their decline—with an utter indifference to the rot and decay appearing in our own civilization—is more grotesque than the Russian adventurer who went about buying dead souls!

The taxes he paid were insignificant compared to the taxes the average man of high education pays today for being smug and satisfied with his array of dead souls—*governed, taxed and ruled (as he often is) by a coterie of unscrupulous men who are more concerned with a few live facts!*

James E. Clark

The State Bank Division

Faith in the Continued Usefulness of Strong Independent Units Reaffirmed by Resolution. Bureaucratic Interference With Business by Governmental Agencies and Pyramiding of Taxes Denounced. Value of Regional Clearinghouses Cited.

BETTER management, the fallacy of free services, the advantages of the unit banking system and the benefits of sectional cooperation were the principal subjects covered by speakers at the fifteenth annual meeting of the State Bank Division in Cleveland, September 29. In opening the session, President Dan V. Stephens, of Fremont, Neb., said that membership in the Division had reached 10,500 banks, or more than half the number in the entire Association. He estimated that members of the State Bank Division represented aggregate resources of $40,000,000,000.

"For the last six years," said Mr. Stephens, "this Division has devoted itself exclusively to the subject of better banking practices. We attempted six years ago to change the entire tenor of our program and instead of theorizing, talking about banking, we have begun to talk banking. We have begun to be concrete. We are trying to demonstrate the value of good banking to the country and to the bankers themselves."

Mr. Stephens' address as retiring President of the Division was a complete and emphatic denunciation of free services as a menace to banking and a prime source of weakness in the business. It appears elsewhere in this issue.

M. Plin Beebe

President, Bank of Ipswich, Ipswich, S. D., Incoming President State Bank Division

New Officers

M. PLIN BEEBE, president of the Bank of Ipswich, Ipswich, S. D., was elected President of the Division for the coming year, and Felix McWhirter, president of the Peoples State Bank, Indianapolis, Ind., was elected Vice-President. L. A. Andrew, president of the Citizen Savings Bank, Ottumwa, Iowa, was chosen a member of the executive committee for the two-year term and the following were elected for the three-year term: W. D. Shultz, vice-president of the Commercial Bank & Trust Company, Wenatchee, Wash., and James C. Bolton, president, Alexandria Bank & Trust Company of Alexandria, Louisiana.

The new officers anticipate that the forthcoming year will be one of extraordinary importance. Progress in the work of the Division will be continued along the same general line as outlined in the preliminary remarks made by the retiring President, Mr. Stephens.

The meeting heard four other principal addresses. John J. Driscoll, Jr., president of Driscoll, Millet & Co., Philadelphia, spoke on "Facts and Factors in Bank Management." James C. Bolton, president of the Alexandria Bank & Trust Co., Alexandria, La., described what had been accomplished in his state through setting up regional clearinghouses and drew on this experience to show specifically in what ways cooperation can be mutually profitable to bankers and in what ways it is limited. W. D. Shultz, vice-president and cashier of the Commercial Bank & Trust Company, Wenatchee, Wash., spoke on the general topic of better banking practices. C. F. Schwenker, Commissioner of Banking, Madison, Wis., discussed the operation of a regional credit bureau as a means of greater safety. All of these addresses are published elsewhere in this JOURNAL.

The Division, by unanimous vote, approved the report of the resolutions committee, dealing with the chief subjects currently under discussion. These include unit banking, the dual system of state and national banks, reserve requirements, parity between industry and agriculture, governmental interference with business and the work of the Division in fostering regional clearinghouse associations.

Place for Unit Banks

"WE reaffirm our faith in the unit banking system," the resolution declared. "We believe that sound, independent banks of adequate size, located in markets which will properly support a bank, will continue to provide efficient banking facilities to thousands of communities throughout the country.

"We believe our present state and national banking systems should continue working in cooperation, thus assuring the endurance and permanency of individual initiative and the free play of personalized enterprise which history has proved so desirable.

"Experience has evolved the safety measure of reserve to be required from banks of all classes. Such experience has proved that the desirable reserve to be required varies in percentage as to chiefly two classes of deposits, time and demand. There exist in various states at present varied requirements inconsistent with proved necessity or desirability. Therefore, the State Bank Division of the American Bankers Association hereby pronounces itself as favorable to

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Profits Fortify Banking

By DAN V. STEPHENS

President, Fremont State Co., Fremont, Nebraska, and Retiring President, State Bank Division, American Bankers Association

American Financial Institutions Called Sounder Today Than Ever Before in History. They Achieved This Goal by Searching Out New Sources of Revenue. Much Remains to be Done. Losses Involved in Handling Public Funds Cited as Needing Remedy.

THE general condition of banking in the United States is undoubtedly better than it has been since 1921. In fact, one might conservatively state that banking is on a sounder basis now than it has ever been in all of its history. Even before the period of deflation set in, when banks were so prosperous and so many new ones were being chartered in order to accommodate the people who wished to get into the banking business, even then, the business did not begin to be so sound as it is today. It only appeared to be sound because prices were constantly rising and there was not an opportunity for the real acid test to be applied.

For ten years the condition of the banks of the United States has been undergoing a tremendous change. The losses, that have been taken out of banks and absorbed in one form or another either by the profits of going concerns or through liquidation of insolvent ones, aggregates a sum that is simply stupendous. No such absorption of losses could have taken place in the last decade without greatly strengthening the banking situation as shown in its present condition. Therefore, I repeat, that probably never in the history of America have the banks been so sound and dependable as they are this year of 1930.

Public Loses

EARNINGS are the bank's chief bulwark against danger in time of economic uncertainty. It is "infinitely more profitable to the community," says Mr. Stephens, "to pay for a bank service rather than to pay for a bank failure." The first essential, he believes, is to make the public think of their bank as a rock capable of withstanding any storm. He makes a point of saying that if a bank has patrons who refuse to pay for service, the bank would be better off without them.

High Standards

THE banks of the United States are able to withstand any strain that may be put upon them. The truth is, the test of sound banking today approaches nearer the standard set by the very best banks than ever before, and that is the ability to liquidate their deposits on demand. Certainly all banks cannot liquidate their deposits on demand. Some time would be required to turn their assets into money but thousands of banks are able to do so. But this strong position of banking is not due to the increased profitableness of the business, but rather to the demand for safety following ten years of deflation of business. Vast sums have been added to the capital of the banks. This demand of bankers for added margins of safety and ability to withstand further losses, if necessary, started the search for new revenues to meet the demand.

For ten years this preaching of better banking practices has continued and, during the last few years, the State Bank Division of the American Bankers Association has taken a foremost part in this educational work by promoting Credit Bureaus, Regional Clearinghouse Associations and publishing and distributing hundreds of thousands of pamphlets covering every phase of banking.

As a result of this publicity many thousands of banks have examined themselves with the utmost thoroughness with a view of finding out their weaknesses and eliminating their losses. Through necessity banks have curtailed expenses for purposes not connected with the business, leaving public and private philanthropies to the stockholder who owns the profits, if any, of the bank. Long ago banks had assumed community leadership, carrying on every sort of community uplift at a great expense to themselves. The fact that a bank could not legally expend the money of stockholders for such purposes was glossed over by bank boards and examiners until profits diminished to a point where necessity forced these expenditures into the spotlight for examination. It is not the bank's business to become a leader and financial supporter of churches, colleges, street shows, charitable institutions and all of the innumerable activities of the community. That is the business of the stockholder as a citizen or member of social organizations, and not the business of banking. The stockholder has option in the matter. He can do as he pleases with his money. But a bank corporation must be guided by its charter and its charter defines its field of action, and philanthropy and community promotion is not included in it.

People, who have business with banks, want the banks to attend strictly to that business. People, who entrust their deposits with banks, want to know that the bankers are wholly absorbed in the protection of those deposits and the proper investment of them. They do not fancy the bank that dabbles in politics, religion, charity and other activities on the side, spending the profits of the bank that should be used to strengthen the institution to make it a safer place for the exchange of the community's business.

Free Service Expensive

THE result of this sort of education has been visible along a far-flung front from Canada to Mexico and from coast to coast. They have found that the elimination of expenses, that are not legal or necessary, is not enough. There are other gifts that should be cut out, the gifts of service that costs the banks large sums of money. Banks that have been giving away anywhere from one thousand dollars to many thousands of dollars a year in service (depending upon the size of the bank) have had their attention directed to the small fees that

could be fairly charged for these services, with the result that millions of dollars have been brought into the revenues of the banks, tremendously strengthening their capital resources and putting them in a better position to serve the public.

Approximately 6000 banks have been closed and liquidated, or are in the process of liquidation, since 1920. In every locality, where one of these failures has occurred, there has been a great disturbance to the business interests of that locality. Great losses have been sustained by the people. The entire resources of the liquidating banks have been imperiled and often much of them lost in the process of liquidation.

The community is not particularly concerned about the few dollars in service charges, comparatively speaking, that a bank collects in the proper conduct of its business, but the community is vitally concerned in not having its heart paralyzed through a bank failure. It is infinitely more profitable to the community to pay for a bank service rather than to pay for a bank failure and it is also conceivable that had these 6000 banks, that have been closed and liquidated, made adequate service charges; prevented the waste of the resources by the bank through contributions to all sorts of public enterprises; turned the resources of the banks into proper banking channels, that all of these banks (which were needed in a community) could have been saved. Of course this does not apply to unnecessary banking facilities but to banks that have a right to exist because of the amount of business that is available to support them.

Public Willing to Pay

LET us forget any short-sighted views that we may have of how the public is going to take an increased service charge for the valuable services that a bank is continually rendering to the community; remembering that it will be infinitely better for the community to have strong banking institutions in their midst capable of meeting all demands that will be made upon them, than to be the recipient of a free service. The only way that banks can be made strong is through profits.

What a glorious thing it would be to the people at large throughout the United States if every man, woman and child could have absolute faith in the solvency of their banking institutions! What a comfort it would be to know that no matter what happened, no matter how many "black Fridays" may come, their banks would stand like a rock in the storm; that their savings would be safe, no matter what happened!

Banks ought to be like that. Banks ought to be as strong as the government in proportion to the obligations that they owe. Therefore, the first aim of bankers should always be to safeguard the deposits of their patrons and the only way those deposits can be made safe is by keeping the bank solvent, and this can only be done through an adequate charge for all the services that a bank renders regardless of whether the patrons of the bank think the charge is just or unjust. The banker himself must decide that question. He is responsible for the protection of his customers and depositors. He is the only one who can decide that question. The depositor himself is personally interested in any charge that is made against him and therefore his judgment would be biased. It is only the banker, who must meet the obligation, who knows what is necessary to protect that obligation and keep in a position to pay it on demand or when it is due.

When a Customer Demurs

THE most amazing thing is the idea bankers generally have that a service charge of every kind, measured exactly to the service that is rendered, cannot be justly and properly made and accepted by the people who use the bank. Our experience is that the people are ready and willing to pay for such services as a bank renders and those who are not willing to pay for it cannot possibly be of any profit to the bank. Those who cannot be sold upon the theory that every man should be willing to pay for what he gets should not be given the bank's service. It belongs to the customers who do pay.

O. Howard Wolfe of Philadelphia relates a story originating in a certain town where there were four banks. One of the banks wanted to put in a service charge. The other three did not, so everything was held in *statu quo* for a long time, but finally the wide-awake banker who wanted to put in the service charge analyzed his bank and one thing which stood out in his mind more prominently than the others was the service charge that he desired to make on small accounts that were carried at a loss. This was not the largest source of revenue by any means but this particular thing he hit upon seemed the most convincing to show to his competitors. So he took off of his books a list of all the unprofitable accounts and he divided them into three parts and when he called his colleagues in to a dinner as his guests one evening he had these lists before him and he made the following announcement to them after dinner.

"Now, gentlemen," he said, "I have been unable to convince you of the wisdom of a service charge on small accounts, so I have decided to go it alone and put in the service charge on small accounts myself, and preparatory to doing that I have made off a list of small accounts against which I wish to make a charge and divided it proportionately among the three banks of the city.

Share and Share Alike

"NOW I will give to you, Mr. Brown, this list, which constitutes one-third of the customers of our bank against whom we are going to make a charge, and we are going to tell those customers that we want to keep them in our bank but that we feel that they must pay the cost of carrying their accounts as long as their accounts are small, but that we hope some day their accounts will be large enough to pay their way, but we recognize the fact that they can go to you, Mr. Brown, and get this work done for nothing, so we are going to tell them that they can move their account to your bank, if they wish to do so, as you are willing to do the work for nothing.

"And, Mr. Jones, we give you the second list and we tell them they can go to your bank," and, "Mr. Smith, we give you this third list and we tell each of them that they can go to your bank and get this service for nothing. By this method I give each of you your proportionate share of our unprofitable business."

Immediately there was a big protest by these co-workers against having these unprofitable customers sent to them. They complained that they had aplenty of their own. This, of course, climaxed the whole argument and brought it to a head in a most forcible manner. Here was an example of three banks objecting to being told the fact that they were ready to do this work for nothing, yet they had not the courage to make a charge against small accounts until the foolishness of their attitude was brought so forcibly to their attention.

Groveling for Business

THIS and similar efforts have been inspired by bankers throughout the United States, who have been thoroughly convinced that the only way to restore the confidence of the people in financial institutions to the fullest degree is to make their banks safe beyond question and the way to do it is through increased profits and curtailment of unnecessary expenses and good management. So long as a bank management believes that it "must crawl on its belly," so to speak, to the public to get business, just so long will there be banks without profit and banks that will gradually become insolvent.

It is only those banking institutions that have self-respect and courage to insist on the bank's service being paid for, that will ultimately stand all of the storms that may break against them.

They must ultimately be the haven of rest for uneasy depositors. These will be the banks that friend and foe will seek side by side because they know such banks are safe. Safety of deposits is a stronger factor than friendship. Safe banks get the deposits.

The slogan of bankers should be "solvency" and it can only come from wise management that creates profits. This admonition is not required by great banking institutions that have able men at their heads and wise counsel at their command, but it does seem essential that smaller institutions far-flung through the vast reaches of America—institutions that stand alone in isolated districts—take every precaution to safeguard their resources; exhaust every effort to increase their revenues and keep themselves in a position to liquidate their deposits, if necessary, on demand. That is the only safe way a bank can become at all times dependable.

Regional Cooperation

THE State Bank Division has vigorously preached better banking practices. It has been exceedingly active in creating the machinery necessary to carry out this educational program.

One of its principal activities has been the organization of regional clearinghouse associations primarily designed to assist bankers in crystallizing the best opinions on theory and practice of banking. These organizations are now scattered throughout the United States and, even where organizations have not been created, there are active bankers who become centers of education in carrying on this great work.

The objections are:

1. The conservation of the resources of banks;
2. Opening up new sources of revenue;
3. Reducing operating costs;
4. Consolidating activities and setting up ethical standards.

Commercial bank conferences have been held in various sections of the United States carrying out this plan of education with far-reaching results. It is admitted, of course, that the great mass of banking activity has only been leavened and that a tremendous amount of work is yet to be done, but progress has been made and there are thousands of bankers throughout this country who will testify to the great benefit that they have received from the studies that have been made.

Deposit of Public Funds

ONE particular phase of this study is worthy of special consideration at this moment and that is the question of interest payment on public funds on deposit in the banking institutions of the country. This subject is so new that we think it has never heretofore been given any public discussion or consideration in our program.

Uncounted millions of dollars of public money is now on deposit in the checking accounts of the banks of the country. The laws of the various states have hedged this deposit about in such a fashion that it has become a distinct loss to the banks and relief is now being sought by bankers in many sections of the United States.

In practically every state the law requires that these deposits shall be secured by bonds and, in addition thereto, a varying rate of interest is demanded upon the deposit, usually 2 per cent and 3 per cent. When this interest rate is added to the cost of surety bond the item of expense to the bank on these accounts runs anywhere from 2½ to 3½ or 4 per cent. Then a further factor involved in a public fund deposit is its fluctuating character and the expense that banks generally have in investing these funds safely in liquid securities so as to be in a position to always meet the withdrawals for public expenditures.

The regional clearinghouse associations have raised this question with county officials on numerous occasions and, invariably, they are met with the statement that they are helpless; that they recognize the fact that their accounts are not entitled to special privileges; that there is no reason whatever that they can see, why a public deposit made by a rich corporate division of the state should be favored over an individual deposit of a similar character. In fact, if there were any preference given at all, it is easily recognizable that the preference should be to the private individual rather than in favor of the public deposit, but the officials' hands are tied by a statute plainly requiring them to procure surety bonds for the safety of their deposits, and also exacts from them an accounting for a certain rate of interest on their daily balances.

Defer Action Indefinitely

THE subject would then next be taken up with the county boards, who could authorize the payment of a reasonable service charge on these accounts that would compensate the banks for the expenses of a surety bond, the interest that they must pay under the law and the loss that they sustain in keeping these funds safely invested, but the county boards do not wish to take the responsibility of paying this honest claim for services and defer action usually indefinitely.

The result of this procrastination has led clearinghouse banks in a great many sections of the country to serve ultimatums upon county boards to the effect that deposits of public funds after a certain date would be received in the usual way but no interest would be paid upon them and no surety bond would be furnished. If the public wished to have a preferential status over all other depositors in the bank, it could furnish its own surety bond for that purpose, and if it wanted interest on its balances the funds should be transferred to time certificates in the usual way. This action usually brought the argument to a head and a compromise would result whereby a service charge of about 1 per cent on daily balances would be paid by the county or city for such services, which would in a small measure compensate the banks for cost of surety bond and for a portion of the interest payment required by law.

Whenever this question is considered it immediately becomes apparent that the payment of interest on a public deposit in a checking account is a discrimination against all other depositors in the banks that are not so treated. It will also be apparent that there is no justification whatever for a bank furnishing a surety bond for public funds when it does not furnish a surety bond for private depositors. The discrimination is so apparent and unjust that bankers everywhere should give the matter their attention and they should join in a refusal to permit such an outrage to be perpetrated upon the private depositors in their banks.

Should Pay for Security

I QUOTE from a letter from a banker in which he states:

"County officials backed by state officials undoubtedly have every right to name the terms upon which they will deposit their funds—unattractive and unprofitable to banks as they are—but they cannot force the banks to accept the deposits. That is the heart of the whole matter. Whenever bankers generally decide the terms on which they will take public money, public officials will very soon discover that they can, after all, find a way to pay this well-earned service charge to cover the cost of keeping the public funds. In these days when depository bonds are almost unprocurable from surety companies and the banks must buy low-yielding investment securities to guarantee repayment of public deposits, it costs them fully 1 per cent in loss of revenue, safekeeping charge on the securities in a city bank, brokerage and risk of market loss on the securities. Is this not a correct position for banks to take; that any depositor, who wants security, must pay for it himself if the banks accept the deposit?"

Another feature of this preferential status of public deposits, which has escaped apparently the attention of the private depositor is the fact that in something like six thousand banks that have been liquidated in the last ten years or are in the process of being liquidated, there were, of course, many millions of dollars of public funds, practically every dollar of which was covered by a surety bond. The private depositor in these institutions had to take whatever dividend the receiver could secure for him out of the assets of these institutions but these assets had been previously lowered many millions of dollars by using them to pay premiums on bonds securing public funds and many other millions were taken with which to pay

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The Way to Use Bank Facts

By JOHN J. DRISCOLL, JR.
Driscoll, Millet and Company, Philadelphia

An Institution Earning 60 Per Cent Annually on Capital Stock Is Compared With One Earning 5 Per Cent. Complete Diagnosis Needed to Reveal Where Losses Occur and Where Opportunities for Profit Have Been Overlooked. Knowledge Is Confidence.

A COMPLETE knowledge and understanding of the facts underlying any problem are essential to the best solution of that problem. Facts to be usable must be reduced to a clear, readily understood basis and admit of easy interpretation.

The soundest and easiest method of determining facts is by analysis and, of course, such facts as are developed must be accurate, complete and on a sound foundation.

As to Management

THE management of a bank is accountable for three major accomplishments:

1. It must render a proper service, to grow and to retain a bank's customers.
2. It must keep its bank sound and liquid and capable of immediately meeting changing conditions.
3. It must earn a profit sufficient to allow for:
   - (a) Additions to surplus to protect increased deposits.
   - (b) The creation of reserves to care for inevitable losses.
   - (c) A fair return to its owners for their investment and risk and not merely on the par value of their stock.
   - (d) A fair salary commensurate with ability and responsibility to everyone in the bank.

Analysis will develop for management the facts necessary to chart its course to accomplish these results. Analysis of the management itself, the results it attains and the effectiveness of its policies will definitely determine the efficiency, thoroughness and ability of this management when compared with others. For, in the final analysis, management must be judged by the results it attains.

While it is necessary and desirable that a bank render service so that it may continue to grow, it is well to remember that it must at the same time continue to increase its earning power, if its growth is to be economically sound and its additional resources properly protected. It is well to remember that size is not a prerequisite of profitable banking and that the desire of many banks for size and volume, without proper consideration of the eventual effect on earning power, is a prime factor contributing to the reduced earning power existing in many banks today.

The income earned from increased business must exceed the additional interest payments and expenses incurred in rendering service in connection with this new business; and this excess should be equal to a normal additional profit and not merely an increase that can be seen only by the use of a telescope. As an example, a bank may increase the rate of interest paid on savings accounts to the point where this interest paid, plus a normal increase in expense, will constantly exceed the income to be earned from these deposits irrespective of the volume of increase in deposits. Actually the loss sustained under these conditions will increase in the same ratio as these deposits increase.

Diminishing Returns

HERE is an example of a bank whose savings accounts totaled $3,000,000 and which was paying 3½ per cent thereon. The rate of payment was increased to 4½ per cent and deposits increased to $4,000,000 with the following result:

	BEFORE	AFTER
Deposits	$3,000,000.00	$4,000,000.00
Income earned @ 5.5 per cent	165,000.00	220,000.00
Interest paid	99,000.00	172,000.00
Expenses, including cost of investing funds	35,000.00	35,000.00
Net profit	$31,000.00	$13,000.00

It will be noted in this instance that it did not cost anything additional to secure or handle this increased business, nor did it cost anything to invest the additional $1,000,000. If these factors were considered, the reduction in profit would be considerably greater.

The analysis of the earning power of banks embraces the following fundamentals:

1. From what sources are the earnings derived?
2. What factors brought about the earnings?
3. How do the earnings, by source, compare with average, normal and ideal standards?

The following statement of the source of earnings of a $10,000,000 bank is typical:

NET EARNINGS FROM:	
Commercial deposits of $3,000,000	$33,000.00
Savings deposits of $5,000,000	20,000.00
Stockholders' funds of $1,200,000	57,000.00
Borrowed money of $300,000	3,000.00
Circulation of $300,000	3,300.00
Trust Department	8,500.00
Safe Deposit Department	3,100.00
Sale of securities	27,000.00
Losses and recoveries	4,300.00
Total net earnings	$159,200.00

Chief Source of Profit

IT will be noted that approximately 66 per cent of the earnings were derived from the use of stockholders funds (capital stock, surplus and undivided profits) and security sales. This is typical as the average bank has been earning 50 per cent to 75 per cent of its profits from these two sources during the past four years and the remainder of its profit has come from banking operations.

Earnings are the result of the operation of the following four factors and are not a factor in themselves:

1. Income earned from invested funds and fees collected for services rendered.
2. Interest paid on deposits and other liabilities.
3. Expenses incident to the investing of funds, the maintenance of plant and the rendering of services.
4. Profits and losses resulting from trading in securities and losses on loans.

Hence, it follows that to control and direct earnings we must first control and direct these four factors. Income earned and fees collected are controlled by the efficient investment and use of funds and the proper remuneration for services rendered. Interest paid is controlled by the determination of a sound and proper rate of interest on savings deposits and the payment of interest on commercial deposits only when an accurate and detailed analysis of each account shows the payment of interest to be justified.

In this connection it is well to remember that the balance shown by a checking account is not a criterion for the payment of interest on the account. In many sections of the country, clearing house associations have specified the minimum balances to be maintained if interest is desired. While this is a step in the right direction, it is not by any means a complete remedy. It does prevent the payment of interest on smaller accounts, but in many instances a bank may be earning a small profit on a $500 account on which no interest is paid and losing money on a $5,000 account because of the payment of interest. The

analysis of an account on an accurate and complete basis and the payment of interest only when the income earned on the account exceeds the cost of services rendered plus a fair profit, is the only sound basis for the payment of interest on checking accounts.

Tight Rein on Expenses

THE efficiency of departmental operations and routine, proper expense control, preferably through budgets, and intelligently directed new business effort control the expense factor. Profits and losses arising from trading in securities are controllable by an intelligent and preconceived investment policy established after a complete survey of the investment position and investment requirements of a bank.

Proper credit information, insistence on periodical turnovers, avoidance of capital loans and the requirement of compensating balances will go a long way toward controlling losses on loans.

It is customary to compare bank earnings on the basis of the par or book value of capital stock, total resources, gross income or some similar general basis. As banks of similar size or capital will vary widely in their composition of deposits, rates of interest paid, and in other respects, it becomes necessary to assign earnings to specific departments in order to arrive at a basis of comparison that will bring weaknesses to the surface. Two banks of equal size may earn the same total profit but differ widely by departments.

In one bank the profits on the commercial deposits may be in excess of $28 per average thousand dollars of deposit a year, while in another, an average loss in excess of $8 a year may exist. The reasons for this wide variation may be a weakness in one or more earning power factors or a combination of many of them.

In another instance one bank may earn 60 per cent or better of its capital stock in the course of a year, where another may be barely able to earn 5 per cent. Until such time as the factors contributing to the earning power in both of these banks are definitely set down and measured, it is not practicable to state clearly the exact causes that have contributed to these two widely varying results.

A Sample Analysis

LET us take the commercial department of the bank we have previously mentioned and compare it with the average, normal and ideal results of the operation of similar sized departments.

This bank showed $3,000,000 in commercial deposits and a net profit of $33,000 on these deposits or $1.10 per $100 per year. The factors bringing about this profit reduced to a basis of per $100 per year is compared with departments of similar size as follows:

	THIS BANK	AVERAGE	NORMAL	IDEAL
Interest income, etc.	$5.15	$5.25	$5.30	$5.45
Interest paid	1.12	1.08	.95	.70
Investment cost	.78	.73	.68	.60
Operating expenses	2.15	2.20	2.10	2.00
Net profit	$1.10	$1.24	$1.57	$2.15
Profit in dollars	$33,000.00	$37,200.00	$47,100.00	$64,500.00

It is interesting to note that operating expenses remain reasonably constant in this comparison and that the bank under discussion would show a marked increase in profit in this department if it observed these four rules:

1. Invested its funds more efficiently, kept its reserves at a minimum and collected proper fees for services rendered.
2. Analyzed its checking accounts and paid interest thereon only where it was justified.
3. Reduced materially the number of small notes carried, or collected a minimum discount on these notes sufficient to absorb their costs.
4. Reduced expenses somewhat by increasing the efficiency of operations by proper direction and control of their new business activities, and by eliminating a reasonable number of their most unprofitable accounts, which it was impossible to adjust to a profitable basis.

Profits Doubled

THE effect of these changes on the profit of this department would be as follows:

Present earnings	$33,000.00
Earnings from better use of funds	4,000.00
Recovery of losses by service and analysis charges	5,000.00
Reduction in interest paid	12,600.00
Reduction in investment cost	5,400.00
Reduction in operating expenses	4,500.00
Ideal profit	$64,500.00

It is entirely possible for the average bank to accomplish at least one-half this improvement provided it is working with facts, knowing what it wants to do, how it wants to do it, and what it will accomplish by doing it. Similar facts and the effect of the various factors that go to make up earning power may be determined for every department in a bank or even for parts of departments.

At the present time there is an utter lack of standardization as to earning power, basis of operation, policies and other factors in banking. The accurate determination of standards establishing what is the best practice under a given set of circumstances must sooner or later be determined for all banks. When this is determined, it will then be possible for the average bank to operate with the high degree of efficiency and earning power that now characterizes outstanding banks. Analysis is developing and providing the standards that may be applied throughout banking.

While many banks are comparable in size, appearance and general set up, every one varies, usually materially, in basis of operation, results accomplished, policies, and in other ways. Now, is it not logical to say that all cannot be right and that almost every one may be subjected to change and adjustment for the better? As standards are determined, it becomes possible to see clearly weakness and to make adjustments intelligently, knowing very definitely where they lead and what they should accomplish.

Analysis Gives Confidence

A UNIT bank basing its policies on facts, knowing why it does things, knowing definitely the effect of their policies and operations on earnings and liquidity, will continue to grow, become stronger and have no fear of group or chain banking. It will be a bank with clear policies of enforcement backed by courage based on confidence that it knows what it is doing. Rest assured group and chain banks will constantly operate on the basis of facts and the unit bank must use the same basis of operation if it is to maintain its independence successfully.

Many unit banks have opened branches in recent years with the hope of materially augmenting profits. Our experience has been that branch banking is desirable from an earning standpoint only when the branch is of substantial size and does not have to draw its business from the main office to survive. As a rule, it may be said of smaller banks that branch banking is not profitable, and in a number of instances this is also true of larger banks.

If a bank is going to open a branch, should it not make a survey of the market possibilities, definitely determine how much and what types of business must be secured to establish the branch successfully? In substance, should it not base its plans and policies on facts rather than hopes, and then later operate the branch on facts rather than constantly convince themselves that everything is wonderful and evade facing true conditions as is now too often the case?

Measure Each Step

IS it not logical to say that the most efficient bank management, to attain its best results, must know exactly why it does a certain thing, what it costs it to do it and what profit it earns thereby? Should bank management not base its policies, its judgment and its conclusions on determinable and accurate facts, rather than on hunches, guesses or unsound conclusions?

Is it not proper to ask that bank man-

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Ten Ways to Cooperate

By JAMES C. BOLTON
President, Alexandria Bank & Trust Co., Alexandria, La.

Regional Clearinghouse Associations Furnish Nuclei for Increasing Number of Mutual Benefit Projects. The Service Charge Is Only One of Many. Makes Possible Charges for Collection, Overdue Notes and Items Requiring Uniformity of Method.

THE organization of regional clearinghouse associations in Louisiana was started as a statewide movement sponsored by the Louisiana Bankers Association. In formulating the rules for my own sectional group we took as our guide the suggestions made by the special committee of the association appointed to aid the movement. These regulations can be discussed under ten heads.

A Price for Service

(1) A service charge on unprofitable accounts:

The experience with which I am familiar covers two banks. In each the revenue received from this charge amounts to enough to pay the salaries of our individual bookkeeping service. The Rapides Bank lost some 600 accounts after the installation of this charge and these accounts aggregated total deposits of $10,000, and in a bank with $5,000,000 total deposits you can readily appreciate this was a negligible sum. We had only one complaint and that individual stated he would carry his money in his pockets and when he needed to send funds out of town he would get a postoffice money order. About two weeks later he returned, and when we asked him why he had changed his point of view he stated he had found that it cost him more to buy his postoffice money orders than it did to pay us.

Before installing this charge all of the banks in Alexandria made analyses of their unprofitable accounts and found that approximately 75 per cent of their accounts maintained an average balance of less than $100, and that the aggregate of the deposits from these funds was only a very small percentage of the total demand deposits that each bank enjoyed. I have seen similar figures prepared by some four or five smaller banks in our neighborhood and they have shown almost identical percentages. Our service charge in Alexandria is fifty cents for accounts that average less than $100. The service charge in effect in most of our surrounding territory is fifty cents on those accounts that have a minimum balance of less than $50 in any one day during the month, although some banks use the average figure of $50 and some both the average and the minimum figure of $100, as we are allowed considerable flexibility in the actual charge that each bank chooses to impose, our association merely setting up a minimum basis on which the service charge is to be figured.

Our association allows an exception from the service charge which I have not heard of elsewhere, but which appeals to a number of the bankers in our neighboring small towns as being fair, and that is to allow a person two checks per month free before applying the charge, the thought being that they have a number of small farmer customers who borrow around $100 for their season's operations and pay a good discount for this loan. These two checks free a month allow these farmers to come to town twice a month to trade, but require that they cash a check at the bank on each trip and pay for their purchases in cash, thereby enabling the bank to retain on deposit the proceeds of this loan without penalizing the small farmer unduly, and at the same time reduce the activity of these accounts to a negligible amount.

We have some illustrations that prove conclusively that the service charge can be installed, regardless of competitive conditions. One banker in the county, connected by a good gravel road with other banking towns, installed the service charge and is making over $1,000 a year from it, on a bank whose capital stock is $15,000; and the party who owns the controlling interest in this bank, who is also president and active in the management of a larger bank in a town nine miles away, on a good road, did not even know that the bank in question had a service charge in effect. The banker who instituted the charge advised me that he did not lose any business because of it. Since then the banker in the larger town has instituted this charge in fear and trembling, and I am informed is delighted with it.

Penalty for Overdrawing

(2) A service charge on checks drawn on insufficient funds:

This charge is twenty-five cents, each time any check is presented. The purpose of it when instituted was to help us rid ourselves of those who habitually endeavor to overdraw; but we have found to our surprise that the charge did not accomplish that purpose, as those who habitually endeavored to overdraw in the past are continuing to do so, and we are collecting a nice revenue from this source. In general this applies only to checks which are turned down by the bank, but one banker, operating a suburban bank in Alexandria, is applying this charge against all checks which overdraw an account, whether they are paid or not, and to the best of our knowledge he has not lost any business by realizing this increased revenue, and he feels that even though he considers the customer good enough to pay his check overdrawing his account, the additional cost of handling the item justifies the charge.

On Notes Overdue

(3) A service charge on notes allowed to run past due:

The purpose of instituting this charge was to endeavor to avoid some of this labor and to repay us at least for stationery, stamps, etc., that it cost. At the Alexandria Bank this charge has been collected religiously. We do not know whether it is being collected in all the other banks in Alexandria, but we are informed this charge is not being strictly collected by all our competitors; however, we have not suffered any loss in business because of that, as our customers realize the fairness of the charge. Our charge is based on one notice a week, and is fixed at twenty-five cents for the first day past due and twenty-five cents per week thereafter. It has resulted in a smaller past due file and increased revenue covering the cost of handling notes of those customers who do not meet their obligations at maturity.

(4) A service charge for over-printing checks, except where balance maintained justifies waiving of charge:

A custom of very free over-printing of checks for anyone who requested it at the bank's expense and of even pre-

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Banks Must Profit

By W. D. SHULTZ
Vice-President, Commercial Bank and Trust Co., Wenatchee, Wash.

Fear, Ignorance and Pride Suggested as Pernicious Trio Preventing the Elimination of Unprofitable Banking Services. One Institution, by Seeking Quality Instead of Quantity in Deposits, Increased Its Average Account from $600 to $1,000.

DECREASED profits and bank failures run hand in hand and anything which will assure more substantial profits can also be regarded as a preventive of failures. The competition which exists for the funds of the community from such agencies as the savings and loan societies, bond and investment houses, and from the partial payment people has become intense. Banks are no longer the storehouses for the people's funds; they are their bookkeepers. Instead of saving to buy, folks now buy to save, and the checks covering partial payments mount into millions annually.

This competition which exists for the funds of the man of average income precludes the possibility that many of their accounts can ever be made to pay a profit of themselves; that is, from interest earnings. There are forces continually at work to increase the bank's expenses and to decrease the deposits from which such a large share of a bank's income has heretofore been derived.

Many Operate at Loss

WE must maintain our proper place in the economic life of the community, and to do that we must derive a profit from our operations. We are told that several thousand banks in the United States were operated at a loss or without a proper profit during 1929. With this occurring during a period of high interest rates, what will the record show during low interest periods if no other income has been provided or the costs of operation shall not have been materially reduced?

While other lines of business, whose existence is predicated upon service, including some 3,500 trust companies or trust departments in both city and country banks, have been exacting a fair return for services rendered, the commercial banker, as a class, in his terrific competition for increased deposits has offered to the public one service after another, seemingly without a thought of costs, without provision for service charges and without analysis as to whether the business he hopes to procure thereby would be profitable or not.

Bags of Candy

"BANKERS," says the writer, "ignored good business in their quest for business." The day is past, he believes, for that grocer who always gave the housewife a fine bag of candy when she paid her bill. What will happen to the bankers, he asks, who persist in giving valuable services for nothing? He says that it behooves everyone to watch the procession of economic changes and get in step. Mr. Shultz outlines what he calls the "decimal method for service charging."

For years country bankers have vaguely realized that some of their checking accounts might not be profitable. With great trepidation some of the more progressive ones long since imposed a twenty-five cent service charge on less than a $50 average balance. Some of these bankers are still collecting that and seem to feel it is an adequate charge. It is not. It is just an annoyance, is entirely inadequate and is, in reality, begging the question.

I believe the day is at hand when every progressive banker must give serious thought to the installation of a measured or graduated service charge on checking accounts. (I shall refer to this type of charge later.) I am firmly convinced, from actual experience, that float charges, collection charges, exchange charges, safekeeping charges, escrow charges, and others, in keeping with the risks and work involved, should be collected.

Before discussing any cure, make a brief diagnosis of the case. In this diagnosis or analysis we shall find the bankers themselves are to blame for their present situation. If proper charges had been provided from time to time as the services were inaugurated, the customers would not have complained. As it is, they have received something for nothing for so long that it is necessarily a matter of education to change their expectations. But, before we can educate our customers, we must thoroughly change our own thoughts and practices. We seem to have ignored totally the principles of good business in our quest for business.

We say, "service charges are all right, but———," But what? In our diagnosis we should see what it is that seems to influence us adversely. Fear and ignorance are encountered first. We fear the charges we propose are not scientifically correct. Our ignorance prevents our overcoming this fear, and our progress is retarded. We fear that some of our accounts will transfer to a competitor, and our ignorance precludes our knowing we would be better off if they did. We fear that our total deposits will materially decrease through the loss of this unprofitable business, and our ignorance prevents us from knowing that in many banks as high as 65 per cent of the depositors provide less than 5 per cent of the deposits, and that this unsatisfactory condition may exist in our own institution. Our diagnosis indicates many bankers are so immersed in unprofitable business that they do not have time to get the facts.

It is not possible to correct a fault unless we know a fault exists. We certainly should know our own shortcomings before analyzing our customers' accounts.

Pioneering Individualism

PRIDE appears as another cause of our difficulties. We pride ourselves upon our ability to manage our own banks. That individualism which pioneered America and for so many years guarded so jealously our unit system of banking, is the stumbling block today when we try to cooperate with our fellow bankers in the solution of our many operating problems.

Fear, ignorance and pride—what can we do to overcome this pernicious trio? First, we must analyze our business. How many accounts on our books are being served at a loss? What does it cost to carry an account and be ready to serve it with every facility at our command without previous notice? What is the minimum average balance every account should carry to absorb this maintenance cost?

What about the activity cost? How many checks "on us" do we handle for each account, and what average monthly balance should be carried to absorb the cost of paying each check? How much does float cost and how should a particular account be made to pay for any it originates? What is the unit cost of receiving a deposit through the teller's wicket?

How shall we allocate the cost of handling the thousands of clearing items our banking machinery is called upon to turn into usable credit? Do we have particular customers who call for unusual services — who require large amounts of currency and silver, want voucher checks printed at our expense, expect service before and after hours, and other favors?

The only way for each to answer these questions is to get the facts as they exist in our own banks. And when these facts are available, we must adopt a reasonable schedule of charges, explain them painstakingly to our customers, and stick to them. There are distinct values in such a move besides the profits in dollars and cents. Increased self-confidence is one of these and greater public confidence is another.

"Go It Alone"

COOPERATION among banks in competition with each other is necessary through city or county clearing houses or other logical mediums to derive the best results but it has been definitely demonstrated that the banker who intelligently "goes it alone" will receive benefits far beyond his expectations, and any anticipated difficulties will be proved to be negligible.

I am not going to include a maze of cost accounting figures nor a description of methods. Anyone can get them from the Bank Management Commission of the American Bankers Association, from the proceedings of the several bank conferences, and from the many bank magazines that come to your desks. But I do want to describe a simple yet effective measured service charge which has been developed out in the state of Washington.

That is a comparatively new region distinctive for its many natural resources. It requires cash to develop these resources, and the money that is there is being turned over very rapidly. This turnover is more rapid than bank deposits justify, so we have had to devise a way to increase our income in proportion to the activity.

Just as an example of our problem, may I refer to my own community, Wenatchee? We are known as the Apple Capital of the World. We are producing over 20,000 carloads, or 15,000,000 bushel boxes of apples there this year. That is more than will be produced in the entire state of New York. It will cost approximately $17,000,000 to get this crop ready to ship. Our banking problem becomes apparent when it is explained that the deposits, both commercial and savings, in the banks of our county total less than $10,000,000, and that the financing and clearing of this business is largely done through the local banks. The Wenatchee banks for a number of years have used a measured service charge, have followed a schedule of other charges, and also checked duplicate borrowers through a credit bureau. The increased income made possible through this cooperation has helped to offset a very heavy cost of operation.

The Decimal Method

BUT to return to the measured service charge which has been recommended by the Uniform Bank Practices Committee of the Washington Bankers Association, we call it the decimal method because it is entirely on a basis of tens and hundreds. It will be recalled that I suggested the presence of a maintenance cost. This is also called a "readiness to serve" cost similar to that incurred by power and light companies. We consider the possible income from the first $100 average in the account as necessary to cover this maintenance cost.

Thereafter, a $10 average balance is required for each check charged to the account. That is, a $200 average balance entitles the depositor to ten checks, a $300 average to twenty checks and so on. If more checks are paid than the balance warrants, a charge of four cents for each additional check is made. Thus, if thirty checks are paid against the $200 average, the charge is eighty cents. That is, thirty checks less ten free checks leaves twenty checks to be charged for at four cents or a charge of eighty cents. The flexibility of the method is apparent. This charge per check may be raised or lowered in a particular community, according to the circumstances controlling that locality. From three to four cents is proving to be equitable in actual practice.

It is apparent this suggestion deals only with "checks on us." To arrive at the usable average balance, float must be figured and to know the real value of an account the other factors mentioned must be considered. The day is past for the grocer who always gave the housewife a sack of candy upon payment of the monthly bill. The chain store overtook and passed him in the march of progress. What is to happen to the banker who persists in giving valuable services for nothing? Great economic changes are taking place today and it certainly behooves everyone to get into and keep in step.

It is not until the figures from an analysis of his accounts are before him that the average banker realizes the seriousness of his problem. It is then he sees that his large losses occur in the larger accounts, and that what he probably thought was a matter of small consequence is, in reality, of major importance and worthy of his deepest consideration for solution.

What Analysis Shows

ANALYSIS of accounts shows that a vast majority—in fact practically all of a bank's commercial depositors use the bank merely as a clearing house and not as a repository. Comparison of a depositor's average balances with his volume of business generally shows an inadequacy of balances. In other words, the customer voluntarily keeps no definite part of his working capital on deposit to repay the banker for benefits received but feels the banker amply compensated for his services and risks by the balances incidental to the depositor's checks being afloat for a few days before presentation.

This certainly costs the depositor nothing, and the banker, until he analyzes and installs adequate service charges, depends for income upon his skill in combining these incidental balances into a reservoir of credit which he may put to work for the community's good. In this connection no reference is made to the compensatory balances generally required by the loan department. That is a separate matter not included in the subject under consideration.

The average banker has his Q's mixed. He has been seeking Quantity when Quality was what he needed. Quality accounts, however, only result from the adoption of a definite policy of account building and the expenditure of many, many hours of painstaking effort to carry out that policy in detail. As an example of what has been done, I can cite a bank which during normal times increased its commercial deposits 90 per cent, or $700,000 in three years, with a net increase of less than 100 accounts. The average of its accounts increased from less than $600 to over $1,000 during that period. In spite of that showing, that bank still has many unprofitable accounts not paying a service charge, and yet in 1929 it collected over $3,500 in service charges and $300 in charges on returned N. S. F. checks.

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One Credit Bureau Record

By C. F. SCHWENKER
Commissioner of Banking, Madison, Wisconsin

Wisconsin Has Thirty Such Cooperative Organizations in Thirty-Five Counties. Characterized by Fair Play and Sportsmanship. First Survey Showed One Borrower in Seven Had Loans in Several Banks. Number of Duplicators Reduced Substantially

THE idea of effecting a smaller loss ratio in the conduct of business in general, through the exchange of credit information, is not new. Almost every city which boasts of a Chamber of Commerce, or a Business Men's Association, does it. Some of them have been developed to a high degree, while others are just ordinary; but, so far as I know, when they have once been instituted, they are never abandoned. Here and there throughout the United States, individual groups have organized bureaus to the number of 162. Some are rather well developed and others are not.

In presenting this subject, the figures I use have been compiled from published reports and surveys of the state chartered banks of Wisconsin. Wisconsin is an average and a typical state. It has about 800 state banks, which average a little over $500,000 in resources, scattered through its seventy-one counties. In 1927, its first credit bureau was established, and we now have thirty county credit bureaus embracing thirty-five counties, or about one-half of the state. These bureaus were, in the main, established in 1928 and 1929, so that there has been opportunity to study conditions before and during their operation.

Specific Benefits

NOT all of the credit for improvements can be given credit bureaus, but they have played an important part in the program for better management. By disclosing duplicators they have aided in reducing the amount of unsecured loans. When duplicators are discovered, the usual program is to get security. In 1927, unsecured loans constituted 47.53 per cent of the note cases. In 1928, the percentage was 46.65, and in 1929, was further reduced to 45.08, a drop of 2.45 per cent in three years.

In 1928, I set out to find out how much of every bank's note case was made up of loans to borrowers who had no other business relationship with the bank except in a loan. It was found that we had 87,754 of such borrowers, aggregating $49,494,000, out of a total of $320,168,000, or, in easily understandable figures, one dollar out of every seven was loaned to a non-depositor. In 1929, a second survey, somewhat broadened, was made, and we found that out of $364,670,000, only $38,657,000 was represented in such loans and that ratio had dropped to one dollar out of every nine. Here, again, I feel that the bureaus have helped, because they have detected in this list of non-depositor loans a degree of duplication.

In this latter check-up, we asked for the number of loans to depositors having average balances of less than $100, and found the huge number of 68,153, amounting to $37,200,000, or about one dollar in nine. The solution of this problem in lending is a vital matter to banks, because it is our observation that it is from this class of loans that we suffer our largest losses. The interchange of credit information must certainly be one means of reducing the loss ratio in a situation where our note cases are made up of loans of one dollar to a non-depositor and one dollar to a customer having a deposit average below $100 out of every nine dollars.

A Striking Comparison

THE next point has to do more particularly with losses. It has been interesting to note that, during a period of unstable real estate values, the losses arising from loans originally secured by real estate mortgage, and developed through the disposal of other real estate, does not show anything approaching the rate of loss on the balance of the note case. In 1928, out of gross charge-offs of $3,340,000, we found that those coming from real estate loans and repossessions amounted to $257,600, while the rest of the note case, which was found to be 46.65 per cent unsecured, totaled $2,091,000, or about eight times as much, and that year, the investment in mortgage loans and in other real estate was only slightly less than the balance of the note case. In 1929, we found the ratio had dropped to six to one. With this record, it is quite apparent that every means possible should be employed to cut the ratio of loss on the unsecured loans very substantially, and it is this class of loans that nourishes and harbors the duplicators.

The experience record of our bureaus is interesting. A tabulation of the results of the first check-up by bureau managers gave a shock. We found, in our thirty county bureaus, that the average of duplication was in excess of 14 per cent. Here we found that, in number of borrowers, instead of in dollars, one in every seven was obtaining credit from two banks or more, running up to as high as eight banks. The effects of closer supervision of loans by the individual banks in the bureau became apparent in the subsequent check-ups. In one particular county, which reported in 1928 an inventory of 6,737 names, there were 935 in two banks, 262 in three banks, eighty-nine in four banks, thirty-two in five banks, thirteen in six banks, three in seven banks, and one in eight banks. The last survey showed 6,738 names, but with 800 in two banks, 197 in three banks, sixty-one in four banks, thirteen in five banks, four in six banks, and two in seven banks. This is a reduction of from 13.8 per cent to 11.8 per cent of duplicators in one year. In still another county, the first check showed 21.1 per cent, and the last 14.9 per cent. Like commercial bureaus, all of our bureaus are not functioning perfectly, or even ordinarily well, but the opportunity for the banks to enjoy direct and wholesome benefit is there when the banker knows its full value.

Time to Act

WHEN it is realized that almost half of the average bank's note case is represented in entirely unsecured loans—that is, those based on character only—that $2 out of every $9 is loaned to someone who is either not a depositor at all, or one whose balance is less than $100; that approximately one borrower out of every seven uses his credit in two or more banks; that more than half of the bank's losses come out of the note case, and six times as much of such loss comes from the unsecured loans where the duplicator flourishes, as from the secured loans, it is time for bankers to use the medium at hand—the interchange of credit information through our bureaus, in an effort to make our banks absolutely safe.

Up to this point, consideration has only

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The National Bank Division

Problems of Taxation and Succession to Trust Powers Are High Points of Meeting. Adopt Plan of Working Through All State Legislatures for Clarification of Trust Laws. Committee on Section 5219 Is Urged to Continue Along Present Course.

THE National Bank Division held its sixteenth annual meeting on Sept. 29 in Cleveland, with John W. Barton, vice-president of the Metropolitan National Bank of Minneapolis, presiding. In point of attendance and general interest the session was unusual. Mr. Barton's address as retiring President of the Division contained outspoken comment on current political and economic problems. He expressed the belief that both the present tariff and immigration policies represented futile efforts to maintain in the United States a living standard considerably higher than in the rest of the world. This address is published elsewhere in this issue.

New Officers

EDMUND S. WOLFE, president of the First National Bank & Trust Company of Bridgeport, Conn., was elected President of the Division for the coming year. Robert Strickland, Jr., vice-president of the First National Bank of Atlanta, was elected Vice-President of the Division. The following were elected members of the Executive Committee for the three-year term: Spencer S. Marsh, vice-president, National Newark and Essex Banking Company, Newark, N. J.; Robert V. Fleming, president, Riggs National Bank, Washington, D. C.; Edwin G. Foreman, Jr., vice-president, Foreman State National Bank, Chicago; and C. J. Lord, president, Capital National Bank, Olympia, Wash. J. C. Persons, president, First National Bank, Birmingham, Ala., was elected to fill an un-expired term.

In addition to the President's address, the chief speakers were Craig B. Hazlewood, vice-president, First National Bank, Chicago, who addressed the Division on the necessity for better management; O. Howard Wolfe, cashier, Philadelphia National Bank, who spoke on the question of member banks sharing more fully in Federal reserve bank earnings; George H. Hamilton, vice-president, Fourth National Bank, Wichita, Kan., who submitted and explained the report of the Committee on National Bank Research, of which he is chairman; and Charles F. Collisson, Agricultural Editor of the Minneapolis Tribune, whose subject was, "Agriculture's Adaptation to Modern Conditions." The addresses of Mr. Hazlewood, Mr. Wolfe and Mr. Hamilton appear elsewhere in this issue.

Edmund S. Wolfe,
President First National Bank & Trust Co., Bridgeport, Conn., Incoming President National Bank Division

Mr. Collison took issue with the frequent assertion that the farmer had lost much of his buying power. He said that the products of the right kind of diversified livestock farming were approximately on a par, as to price, with the commodities a farmer must buy. Grain prices, he said, were, of course, low, and for that reason a farmer who failed to diversify might find his income seriously curtailed.

"Yet dairy products," he said, "the source of our greatest farm income in the northwest, have been and still are, above the commodity price index in exchange or trading value. The same is true of cattle, calves, wool and lambs, poultry and eggs, in fact of all livestock products except horses and hogs." He cited figures showing that the farm income in four states—Minnesota, the Dakotas and Montana—had increased by 71 per cent, or $661,166,000, during the last eight years.

John W. Pole, Comptroller of the Currency, was present at the meeting and was introduced by Mr. Barton. Mr. Pole said: "At best the Comptroller's office is a difficult one. Were it not for the splendid spirit which has always been in evidence on the part of the national banks I doubt very much whether the job would be done at all. For this I wish to thank you most sincerely and to assure you that the only desire of the Comptroller's office is to render a real banking service to you and to the banking public."

Other guests of the Division were Mr. Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend, Ind., and Mr. Harry J. Haas, vice-president, First National Bank, Philadelphia.

Listen and Learn

"IF Bankers would listen attentively," said Mr. Stephenson, "to the statements that have been made from time to time by these men who have advocated better bank management so earnestly, there would be fewer failures of banks in the United States and the business of banking would become scientifically correct."

O. Howard Wolfe prefaced his ad-

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Central Problems in Finance

By JOHN W. BARTON

Vice-President, Metropolitan National Bank, Minneapolis, and Retiring President, National Bank Division, American Bankers Association.

Trend of Government into Business Called Socialistic and Source of Distress Unless Checked Immediately. Subsidies of All Kinds Declared Unsound and Destructive of Progress. Political Timidity Believed Incongruous with Business Leadership.

WE may not all hold to the same ideas about solutions of our various banking problems. There may be, even, many different opinions as to what our banking problems are. Gratifying advancement was made during the year toward mastery of the technique of bank management. A whole-hearted determination to employ better management methods spread among bankers and led to the adoption of a more analytical supervision over their various practices. It produced no radical changes in bank conduct, but it is driving out the thought that a practice desirable for one bank necessarily must be sound for another, and in its place has instilled the doctrine of shaping each operation to fit into the general plan of a particular bank. It is simply a more intensive form of internal supervision required to keep banking attuned to the changed conditions in the business world.

Mergers and Trust Powers

MUCH uncertainty and a good deal of inconvenience was occasioned by the decision of the United States Supreme Court in the Worcester County National Bank case. It involved the right of the succession of trust powers and appointments held by state banks and trust companies when consolidating with national banks under the charters of the latter. This adverse decision was based upon Massachusetts law but similar statutes in other states probably would be construed in the same way.

To remedy this difficulty, which the McFadden law was intended to correct, the National Bank Division decided to seek amendments to the laws of each state in which such seemed necessary. Only eight legislatures met last winter. In some of those states the laws were satisfactory and in some others the occasion was not opportune. However, through the state associations of bankers amendments were offered in three legislatures and adopted by two of them. Hereafter, in those states, South Carolina and New York, and in North Carolina, which amended its statutes earlier, trust powers will pass automatically to the consolidated banks operating under either state or national charters. During the coming winter practically all the states will have legislative sessions. This will afford an excellent opportunity to press this important work further.

Bank Profits

MR. BARTON discusses frankly certain matters affecting bank profits and the nation's economic future. America's standard of living is too high compared with the rest of the world and that the contrast cannot be maintained. Reserve members should receive a more generous share of the system's earnings and membership should be voluntary for small national banks. He feels that business cycles are inevitable and regrets politicians must promise voters a "hodgepodge of impossibilities."

Because of the likelihood of some important bank legislation being enacted in the next year or two, and desiring to have the needs of its members recognized by Congress when its amendments are prepared, the National Bank Division created a Committee on National Bank Research. To it was assigned the task of studying the requirements of national banks and recommending such changes in statutes and in regulations as would tend to further modernize the laws to meet the demands of changed conditions of recent years.

Outlook Changing

THE position of the American Bankers Association has been substantially one of opposition to branch banking. Its last expression modified somewhat its first stand and gave approval to the very limited branch schedule carried in the McFadden bill, but it was not an approval of a principle. Rather it was a sanction of a definite plan to restrict branches to the numbers specified in that act. It is still the policy of the Association, but the rapid growth of multiple banking in the last two years, the encouragement given it by the business world, and the soundness and satisfaction which have attended its development, indicate that we are approaching the time when our position of opposition will have to be abrogated or at least modified.

Legislative encouragement to branch banking and group banking would not, in my judgment, mean the disappearance of the unit bank. It has established a place for itself in our banking system, and will continue to function in such communities as it is suited to serve best. However, this is an age of larger units in business and in industry, and banking cannot lag behind. It must adopt the practices of the business it is organized to assist, and size and strength and close and continuous contact with larger areas, are essential to its efficacy.

An Adjusting Process

EVERY banker recognizes the force of the multiple banking movement. He knows that already it has attained a high place in public estimation. It is just now undergoing a sort of coordinating or adjusting process from which it is expected to emerge with greater force and vitality and press onward with renewed assurance.

We are witnessing the greatest and most potent development in banking since Civil War days. Its course appears to parallel that of other business. While its permanency seems certain, we should be considering the character of support we will give it to the attainment of its highest ends.

National bankers do not ask or expect the enactment of laws that place them in a preferential position over other kinds of banks operating under state charters, and here I desire to refer

to a question involving a rather broad banking and economic problem. The laws under which the banking business of the country is operated emanate from forty-nine sources, that of the Federal Government and the forty-eight states, thereby creating a lack of uniformity and many elements of conflict, the source of major controversial issues.

We are in an era of profound banking change. Is it not time to consider a fundamental change in the interest of economy, efficiency and sound uniformity, which possibly involves the question of bringing all banking under a single jurisdiction? I have entertained some very strong convictions along this line for a great many years and I will not now attempt to state the numerous arguments that could be advanced in support of the idea.

I believe a larger share of the earnings of the Federal reserve banks should in some way be distributed to the stockholders instead of being paid to the government as a franchise tax. Individual bankers have expressed freely their favor for some such plan and it is likely that it will be one of the first measures to receive the attention of the Congressional Committees when such committees reach the point of taking definite action. Since the organization of these Federal reserve banks, they have paid to the government a so-called franchise tax in the sum of $147,000,000; during the same period the dividend paid to the member banks which furnished the entire capital structure was limited by law to a sum of $90,000,000.

Reserve Membership

THE question of voluntary membership in the Federal Reserve System for small national banks has its appeal and can properly be given earnest consideration. On the latest figures available there were 7,635 national bank members in the Federal Reserve System. The total capital of Federal reserve banks was $147,000,000, with aggregate reserve deposits carried in Federal reserve banks of $2,389,600,000. If all national banks with less than $50,000, capital should withdraw, it would leave 5,477 national bank members in the system, Federal reserve bank capital $144,322,000, and reserve deposits $2,350,784,000, thereby reducing the number of member banks by 2,158 and reducing the paid in capital of Federal reserve banks only $2,678,000 and reducing the reserve deposits carried with Federal reserve banks only $38,216,000.

The interesting part of the picture conveyed by the set of figures just quoted is the fact that by making it possible to have the number of member banks thus reduced by almost one-third, would only reduce the paid-in capital of Federal reserve banks from $147,000,000 to $144,322,000, and only reduce reserves carried in Federal reserve banks from $2,389,000,000 to $2,350,784,000, which reduction in capital of Federal reserve banks and reserves could not consistently be advanced as material to the strength of the system. It should result, by virtue of the material decrease in the number of members, in economy in operation, and should allay the feeling of coercion that a number of smaller banks may consider is the price they are now paying for continuing their national charters.

Ever Present Tax Problem

THE question of taxation demands continuous attention. Bankers do not seek a privileged position respecting taxation, but the members of this Division know that the problem of bank taxation will not be settled apart from the problem of taxation as a whole. We have followed, with real interest, recent developments concerning Section 5219 U. S. Revised Statutes, as it is from that section that the states derive such power as they have to tax national banks. The Committee on Section 5219 has been working diligently with Congress and the taxing authorities of the several states to arrive at some basis which would somewhat enlarge the latitude the states now have in taxing national banks, at the same time to forestall amendments whose adoption would eliminate effectively the protective force of this section. This seems necessary under modern conditions, but with limitations that would safeguard the interests of the banks and prevent the extension of unfair taxation.

The business and political life of this country are very closely interwoven. Each four years we have a Presidential election which may change the administration of every department of the Government. Every two years we vote on a new House of Representatives and one-third of the United States Senate, and elect legislators and state officials in the forty-eight states. The political platforms of the various parties in these several elections represent the varying shades of opinions of our party leaders on economic and social questions, all directly affecting our business life.

The commerce and industry of all nations has its inevitable periods of depression—its high and low in volume—the ever recurring spells of inactivity and unemployment following over-production, usually caused by a wave of prosperity carrying us off a safe balance. There does not seem to be any way, and probably there never will be determined a way, to establish and maintain any happy medium of industrial activity. However, it is in these periods of depression that the voting public, having had a taste of hectic prosperity, responds most enthusiastically to unsound proposals. Hence the continuous influence of legislation or proposed legislation on business and the necessity for eternal vigilance.

We seem to have drifted into the general impression of late years that everything not to our particular liking can be corrected by some new law. The slogan "there-ought-to-be-a-law" is accepted by too large a percentage of our population as a sure way to cure every evil. When economic storms arise, politicians are eager to capitalize the urge to take up popular slogans regardless of results.

The public should realize that unsound economic conditions cannot be corrected by subsidies. The Government, of course, can throw funds into a commodity market or loan money at low rates and it can easily be said that it "can afford to lose," but the result of such transactions is only temporarily to arrest a decline or to stabilize prices.

Such unnatural stimulants or purgatives must react against the classes involved sooner or later. Here I desire to quote from Fred I. Kent's report as Chairman of the Commerce and Marine Commission:

"It is becoming constantly more evident that the growing and continued prosperity of the United States is to some important extent going to depend upon the relations between government and the people as to industry, that is, whether government is going to continue to edge its way into operation and competition with private industry as it is now doing, or whether sound principles can become widespread in the United States which will result in a clear differentiation between regulation by government for the proper protection of the people and industry and operation by government to the detriment of the public and industry.

Viewpoints Differ

"AGITATION aimed to lead the public to believe in government operation by those societies and organizations which carry it on, is not viewed as propaganda in the same manner as is true when business tries to protect itself and the people by showing their side.

"Those who are for government operation have been able to frighten the public from consideration of the principles against government operation advanced by industry on the plea that industry is prejudiced. This superficial method of brushing away arguments against government operation has been allowed to prevail long enough and it would seem time for this subject to be presented on the basis of fact aside from prejudice.

"It would seem as though the bankers carrying the deposits of both the people

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Well-Managed Unit Banks Can Stand Alone

By CRAIG B. HAZLEWOOD
Vice-President, First National Bank, Chicago

American System Has Grown Out of Free Initiative. Transition From Pioneering Days to Present Brought Increasing Competition. Skilled and Experienced Management Is First Essential. Sound, Independent Institutions Said to Have Permanent Place.

IT is time for bankers to do some further thinking for themselves concerning the changes that are taking place and that are proposed in the type of corporate organization which is employed in the banking business. We must not let others do all of our thinking. As a business that depends so much upon public good will, our primary consideration should be to provide the type of organization and methods of operation that will serve the public best.

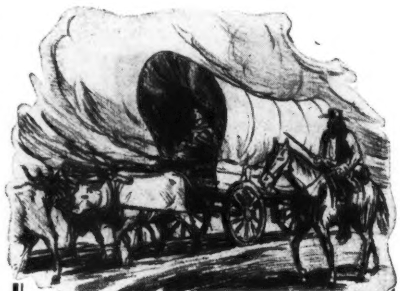
The two principal functions of the banking business are those of discount and deposit. Our objectives, therefore, should be toward the best possible methods of serving both our borrowers and depositors with intelligence, security and despatch. We should be able to judge, out of our experience, which is the best type of organization to employ to obtain this objective in either city, town, suburban, or hamlet banks.

Based On Unit Banks

AFREE initiative has built the American banking system. In contrast to many other countries, where branch banking and a central government bank have been the traditional and accepted trend, our banking development has been characterized by detached and independent units.

The contrast between the American banking system and that of certain foreign countries is as sharp as the contrast between the American form of government and foreign monarchical forms. And just as each has its advantages and disadvantages—just as some people believe in absolute instead of popular rule—so are some bankers inclined to discount the advantages of popular initiative in banking and look enviously upon the advantages of a stronger centralized system.

The whole growth of American institutions is full of this restless, driving spirit. As fast as things are perfected, the light of criticism is turned upon them. Almost before they are finished, they are obsolescent, and their places are taken by something that is an improvement. So it has been in banking. The intimate student of banking history recognizes that the course of banking in the United States never has run smoothly. Consequently, the present problems and tendencies are neither wholly unexpected nor appalling.



Not Unlimited

OUT of a selected list of 7,000 banks, says Mr. Hazlewood, it was found that about 18 per cent earned from 11 to 15 per cent on their invested capital, about 9 per cent of them earned 16 per cent and some small unit banks were found to show earnings up to 25 per cent or more. He believes that good management is the first essential to banking success, but no more so in the case of single banks than in chains and groups. He sees definite limitations to the spread of multiple banking.

I scarcely need to recount the well-known steps that have been laid from the beginning of our banking system to the present: the early fears of a great, centralized financial octopus that obstructed the establishment of the first bank of a national character; the First Bank and the Second Bank of the United States and their overthrow by the state banks; the excessive expansion of state banks, culminating in the panic of 1837; the establishment of the Federal Reserve System.

Examine briefly the broad picture of this country's development and the growth of its unit banks. In the pioneer period, a bank was started soon after the general store had become the center of a small community. The banker was never far behind the covered wagon. A second bank was opened when the prosperity of the first became apparent. In large cities, banks started on transfer corners as the city extended its limits. In many cases, banks were founded for the purpose of aiding real estate speculation.

Strangers to Banking

THE officers frequently had no previous experience in banking. Bank officers soon mastered the simple fundamentals of banking. They learned to pass on loans, most of which were made to the nearby farmers, the local business men, and others whom they knew personally or by reputation. In times when the demand for loans slackened, they sometimes invested a part of their funds in bonds. As in most businesses, those who were reasonably efficient were reasonably successful; those who were better than average made outstanding successes; those who were inefficient failed. Banking was essentially a community activity. Each bank was a unit. There was little talk of branch banking.

Such were the short and simple annals of American banking for a considerable portion of our history. Finally, the frontiers could be pushed no farther. The country's development became intensive instead of extensive. The processes of gathering unearned increment along a boundless frontier gave way to a competitive battle hemmed in on all sides. Some communities dwindled in size and

influence. The coming of the automobile and improved roads made the smaller towns less important. The battle for business, freed from local limitations by modern methods of communication and transportation, became a mêlée, with every unit facing competition from far and near. Still the well-managed banks prospered. Under the sterner competition, others failed or just held on.

Off With the Old

OBVIOUSLY, the development of our banking system has had in it elements of disorder and waste. But the whole development of this country has been characterized by disorder, waste, and a readiness always to discard the new for the newer. And the net result of all this waste, or whatever it may be called, has, after all, been the achievement of more progress in a hundred years than has ever been made by any other country in any length of time.

I have sketched the course of banking in America, because it is and should remain so characteristically American, so characteristically free: and because with this perspective, one feels new courage and enthusiasm in meeting problems today that may seem without precedent.

Scrutinize present day banking in America—its problems and the suggested solutions. In the past decade the banking business has lived through one of the most trying periods in its history, with inflation, deflation, and a liquidation of banking assets that proved fatal to over 5000 banks, and threatened the survival of many others.

In the period of prosperity following the war many a bank threw management principles to the winds and engaged in unsound practices. A great competitive spirit developed, with each bank striving to do more for the customer than the bank across the street. Volume became the foremost consideration, while profits were only incidentally considered.

However, the example of 5000 bank failures in one decade and the constantly diminishing rate of banking profit for two decades could not be ignored. A period of severe introspection was inevitable. Bankers began to study the causes of failure and poor profits. Unobserved and neglected principles of sound bank management were re-emphasized. The policies of those banks which had gone far along the road of scientific management were carefully studied. The searchlight of research and creative thinking was turned on those phases of banking where weaknesses were clearly evident and where bankers had groped in the dark.

Reasons for Failure

IN the great majority of cases where failure and inadequate profits were found, there also were found bankers without the proper experience or with an astonishing lack of familiarity with the technique of banking. The banker had been a good fellow who permitted his competitor to fix his interest rates and his customers to dictate his loaning policies. Thinking bankers began to speak of the urgent necessity of introducing scientific management in every bank. They sought aggressively to recast methods of procedure and to direct the thinking of all bankers along lines which would keep our banks safe, liquid, and profitable.

Many remedies were suggested. Many false conclusions were drawn. Perhaps the problem has been so close that we cannot view it in the proper perspective. On every hand there has been condemnation of our unit banking system. Many proponents of branch, group, and chain banking have insisted that a change in the system would at once restore stability to American banking. Group and branch banking have been extended in various parts of the country. Legislation to permit branch banking by national banks in their trade areas has been recommended by Government officials. However, in my opinion, we have simply been floundering in our logic. It does not follow because unit banks have failed that unit banking is a failure. Good unit banks have survived. If the same kind of banking had been practiced in group or branch banking systems that was employed in many of the failed unit banks, the results would have been the same, only more disastrous, because larger sums would have been involved.

Our vision has been distorted and our thinking has been muddled. We have failed to look for the fault in the proper place. The record of the American unit banking system not only proves that a poorly managed unit bank fails, but it also proves—a fact we have too frequently forgotten—that a soundly managed unit bank succeeds.

Five Truths

THESE facts are evident from an analysis of the situation:

1. That the great majority of the unit banks in this country are today sound and solvent institutions.

2. That a very large number of these sound institutions are located in sections of the country where the difficulties of operation have been the greatest, in some cases even across the street from a failed bank.

3. That an analysis of a selected list of 7000 banks indicated that about 18 per cent earned from 11 per cent to 15 per cent on their invested capital, and about 9 per cent earned 16 per cent, in all cases after losses. I know of many small unit banks that show net profits of 25 per cent or more.

4. That every city banker handling country bank accounts knows dozens of instances of bankers who long ago adopted a program including a definite loan policy, adequate credit information, liquid secondary reserves, diversification of assets, and the other items that constitute the accepted modern standards for bank operation. Furthermore, the number of instances of this kind is increasing very rapidly.

5. That for the past ten years there has been active participation by bankers the country over in the program of more profitable operation, which includes all the correlated subjects of service charges, lower interest rates on deposits, budget control, elimination of unprofitable business, and other items.

I challenge the statement that the unit banking system has failed. It has not failed. It is not the system, but the management that needs attention. Sound banking depends upon sound bankers far more than it does upon any particular system. It was primarily bad management that caused 5000 failures in the past decade, approximately 90 per cent of which occurred in cities of 10,000 or less and in banks with a capital of less than $100,000. It may be argued that it was the unit banking system. But it might also be shown that banks in foreign countries, including Canada, with hundreds of branches, had their troubles while we were experiencing banking difficulties in this country. One may examine every kind of banking system in operation anywhere in the world, and it will be found that there is only one factor which in the last analysis determines whether a particular system will be successful. That factor is management. Give me the measure of a banker's management ability, and I can describe the limits of his bank's success.

Same Applies to Groups

WE may analyze group banking and weigh carefully its possible advantages and disadvantages, and we shall find that it can justify itself only as it provides better management. Group banking is not worth while to the stockholder of the holding company or to the stockholder of the member bank unless it provides an additional check and balance, new ideas, aggressive new business policies, scientific management standards and practices promulgated by a central office, and, most important of all, has the power to remove incompetent management.

Bankers should not delude themselves regarding the remedies that must be applied in this situation. Group, chain, and branch banking do not represent any improvement over the unit banking system unless they provide, at the head office, management ability of a higher order than would be available in the independent units. To show larger profits

with greater liquidity and safety, they must manage better. They must have full authority to replace incompetent management wherever it may appear in their groups or branches, and they must have management control so firm that it simply will not countenance or permit any violation of sound banking practices.

In my opinion, there is only one conclusion possible from a study of the facts, and that is that a safe and profitable bank can be maintained in the unit system. If this be true, must we not challenge the statement by the Comptroller of the Currency in the hearings before the House Committee on Banking and Currency, on February 25, 1930? On that occasion he said: "It is with great reluctance that I have slowly come to the conclusion that our small independent unit country banks are no longer fulfilling the purposes of their creation, and that there is need for a better, sounder, and stronger system."

Need Larger Units

THE Comptroller, in his statement, was attempting to justify his advocacy of trade area branch banking. Perhaps he felt it necessary, in order to justify a radical change in our banking operations, to make such a sweeping assertion. In my judgment, he went too far. I am perfectly willing to concede, and I believe that most bankers will agree, that the size unit of successful independent banks must be increased, that in all probability the unit banks which make good headway in the next few years will be located in larger communities. They will have larger capital funds and a larger volume of deposits than the numerous small banks which were chartered in communities too small to support them. It is entirely possible that in our very small communities and in outlying sections of cities, a branch of a strong bank in a nearby city might be operated profitably and to the advantage of the people instead of trying to conduct an independent bank on an unprofitable basis. Such branches could be operated with a manager and one or two clerks. There would be no independent capital, and modest quarters could be used. I shall grant that this represents an advocacy of branch banking, and I firmly believe that local branch banking has many advantages to commend it. But I should like to make this very important reservation: that branch banking be limited territorially to the extent of the loaning officer's first-hand knowledge of local credits. Branch banking over a larger area has all the objections that are well known to the British and Canadian systems. What I should like to consider as a logical trade area within which such branch banking should operate is an area limited by a banker's first-hand knowledge of the people, the concerns, and the trade conditions in that territory.

Big Loans Often Simple

A BANKER in Cleveland knows the credit standing of a great many concerns in Ohio, many of which maintain Cleveland accounts, but these names that he passes on, while usually the best in the towns and cities of Ohio, represent only a small part, and, in fact, the less difficult part of the credits that are extended by banks in Canton, Youngstown, Defiance, or Piqua. In this connection, very often it is more difficult to make comparatively small loans than it is for bankers to pass on million dollar credits to national accounts whose position is unquestioned.

When it is necessary to pass on local loans of substantial size in a bank two or three hundred miles away, I think most bankers would feel that someone closer to the local situation should have the responsibility. This suggests, then, the possibility of a logical development for group banking, where a local bank carries on independently, but has the management counsel the examination feature, and the investment aid which should be supplied by group banking. I can conceive a banking system, therefore, in which unit banking, group banking, and localized branch banking might operate successfully at the same time.

Before proceeding to bank management, which I firmly believe is the keystone to the successful operation of any banking system, there are two obvious weaknesses in bank supervision often discussed, but not sufficiently stressed. It is an old story that an overwhelming proportion of our bank failures have been small banks which attempted to operate in communities obviously unable to support a bank. It was an error of judgment on the part of the management to establish a bank under conditions where it could not operate successfully. But that does not excuse those who have the power to grant charters from placing their approval on these requests for charters. That simply means compounding an error of judgment, and is inexcusable. In those states where the banking authorities do not have the power to curb the granting of charters, it is the responsibility of public-spirited bankers to unite at once to secure the necessary legislation.

Inexperienced Examiners

AN examination of the salaries now being paid national and state bank examiners generally is an all too obvious explanation for the entirely inadequate bank examinations we have had. We cannot have competent bank examination unless we employ and retain competent examiners with adequate salaries. An illustration will indicate what I have in mind. A young man, perhaps in his early twenties, with a university education, but with experience only as a bank teller, is today an examiner in a cetrain state. Is it reasonable to suppose that this young man can go into a bank and offer constructive suggestions for management when he has no sound background of experience? As a young man, would he not be hesitant in telling a banker, perhaps thirty years his senior, how he should run his bank? As a matter of fact, may we not assume that he would conduct a purely perfunctory examination, balancing the books, counting the cash, and doing only the obvious things? Is it right to place in his hands the authority to determine whether a bank should stay open or close? That illustration is typical.

The bank failure record of these last ten years is in a measure a direct reflection upon the conduct of bank examinations and upon those who have the power to grant bank charters.

In the remainder of this discussion, I should like to consider the essential factor of management. The Comptroller of the Currency has said:

> "The remedy most frequently suggested for the failure of small banks is the inauguration of better bank management. The principal advocates of this remedy are those familiar with or engaged in banking as it is carried on by the large city banks. Their study of the small bank situation—especially the small country banks—has shown certain weaknesses in management, such as lack of a sound and definite loan policy; the lack of adequate credit information; the failure to build up an adequate liquid secondary reserve of securities; a lack of adequate knowledge of the securities market; the failure to obtain a diversification of loans, that is to say, too great a proportion of the loans are made upon the same class of security or credit.
>
> "No one who has made a compreshensive study of small country banks can deny that the above conditions exist. Their chief significance, however, lies in their comparison with the operations of the metropolitan banks. It has never been convincingly pointed out exactly how these small country banks could adopt these more approved methods of banking. Educational campaigns have been suggested as a means of bringing the situation home to the country banker. In fact, discussion of improving country bank management has been going on for the past ten years with no very gratifying results."

Not So Hopeless

WITH due respect to the sincerity which lies behind the convictions expressed by the Comptroller, I am, nevertheless, compelled to disagree entirely with his conclusions. Does that statement imply that the thousands of country bankers who are today following conservative loaning policies based upon adequate credit information, maintaining the proper secondary reserves, and operating sound, profitable banks have failed to benefit by the discussions of better bank management which have taken place in all parts of the country? Must we conclude that, after all, it is a waste of time to carry on intensive educational campaigns for the improvement of management in our banks, and that all we need is a change of systems? Is it fair

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An Indirect Share in Reserve Bank Profits

BY O. HOWARD WOLFE

Cashier, Philadelphia National Bank, Philadelphia

Present Law Giving Excess Earnings of the System to Government Called Unfair. Suggestion Advanced, However, That Better Method of Sharing with Members is Devisable than Increasing Dividends. Interest on Deposits Declared Impossible.

ENOUGH has been written and said on the subject of Federal reserve dividends during the past year or two to enable one to draw conclusions. All that I shall attempt to do will be to summarize the facts and opinions thus far expressed, and to point out what seems to me to be a safe middle-of-the-road policy. We must remember that whatever may be our personal views on the subject bankers are exactly in the same position with respect to legislation as they were when the Federal Reserve Act was written. For the sake of argument we may admit that the act was not exactly in every detail as we would have had it, yet we are bound to admit that we got the best banking act that could be passed in Washington. So with Federal reserve bank dividends: what we might like to have and what we may get are not apt to be the same, but at least we can be practical and work for the attainable instead of wasting our efforts on the unattainable.

$36,500,000 in 1929

FOR example, there has been a continuous demand in some quarters that the Federal reserve banks should pay interest on deposits, presumably at 2 per cent. It is unnecessary to attempt to explain why such a proposition is economically unsound, as I emphatically believe it to be. All that one needs to do is to examine the proposal, that interest be paid, from its practical side. The earnings of the twelve Federal reserve banks were higher in 1929 than any year since 1921. Total earnings for the twelve banks amounted to approximately $36,500,000. $9,500,000 was paid in dividends leaving less than $27,000,000 for interest. Two per cent of the combined reserve deposits of member banks in 1929 would have been $47,000,000 or $20,000,000 more than was available for interest all around. That was the best year. Compare 1925, when after paying dividends there would have been $2,500,000 to meet an interest-on-deposits requirement of $43,000,000. I suspect 1930-31 will look something like 1925-26, so we may as well forget about interest on deposits.

Discouraging as this may seem, I believe that member banks should share more liberally in Federal reserve bank earnings. There are other and I confidently believe better and sounder ways of enjoying these benefits than through the payment of interest and increased dividends. In June of this year the Federal Reserve Bank of Dallas made up some statistics for the benefit of one of its members, a typical country bank. Cost of shipping currency absorbed by the Federal reserve bank and the difference between the discount rate of the Federal reserve bank and what the member would have had to pay its city correspondent for loans were the principal items, and there were some others. The rather surprising result showed that in actual dollars and cents saved, the country bank received in a five months' period the equivalent of 6.84 per cent interest on its reserve deposits.

It is along these lines I would recommend increased dividends be sought. First I would suggest more liberal regulations with respect to reserve requirements. The time is opportune for national banks to take definite action in this direction, since there is now a Federal Reserve Committee working on the question, and it is encouraging to reflect that present regulations, some of them arbitrary, may be liberalized without any action of Congress.

Duplicate Reserves

I BELIEVE all banks, country as well as city, should be permitted to deduct "due from banks" from gross deposits to arrive at the net regardless of the relative amount of "due to banks." Of course, certain limitations would have to be made to prevent abuse, but I believe the principle is sound that two banks should not be required to carry reserve against the same money as is now the case. The comptroller of the currency appears to be almost alone in the efforts he is making to point out tactfully though clearly that we have a dual banking system in this country. When one discusses with national bankers the deduction of float from gross deposits, remember they are competing with state banks that use float as reserve. Although I think reserve requirements ought to be the same for both national and state banks competing for the same business, I also believe the state banks should be brought up to the virtues of the national bank system rather than have national banks relapse into the state bank method of computing reserve. There is plenty of good in each system, but there should be a more general reconcilement of reserve requirements.

Currency as Reserve

THE next proposal I advance somewhat reluctantly because it would appear to open the door to other and perhaps dangerous charges. But I have no fear personally that this would happen. I am referring to that moot question, the use of currency as reserve. When discussing this angle of the reserve question, I am afraid too many country bankers are thinking only of till money reserve, which in the economic sense and in correct Federal Reserve Act theory is very properly not reserve at all. The fundamental purpose of reserve is that it shall be a check against credit inflation. I would propose that member banks be permitted to deduct legal tender money, or at least gold and gold certificates from gross deposits in calculating reserve. Here again limitations would have to be set probably along the lines of fixing a ratio between such deductions and gross deposits.

There may be those who will point out that the two changes I have suggested will have the effect of reducing deposits in the reserve banks. The answer, I think, is that in times of credit stress the amount of gold held by the

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National Banks Seek Important Changes in Charter

By GEORGE H. HAMILTON
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Trace Diminishing Influence to Four Major Causes: Compulsory Membership in Reserve System Without Compensating Advantages; Uncertainty of Trust Powers in a Merger; More Liberal State Laws and Restrictions Upon the Privilege of Branch Banking.

NATIONAL bankers, quite generally have been aware of the fact that there has been a falling off in the national banking system due to national banks throughout the country, for one reason or another, surrendering their charters. This defection can best be expressed, perhaps, in the terms of figures, when I point out that in 1886 the national banks of the country controlled 75 per cent of the banking resources of the country, and in 1926 this percentage had dropped to 46 per cent and today it is something a little less than 40 per cent.

Began to Cause Concern

THIS falling off has been more or less of a gradual process, but the last ten years has seen the acceleration of it due to various causes. It had reached such a stage of development that it had become a cause of alarm to the officials who are charged with the responsibility of looking after national bank affairs and to the Federal Reserve Board itself.

In beginning its labors the committee figured that the best way to find what might be a remedy for the condition was to find out what caused these banks to surrender their charters. Consequently, the members of the committee sent out a questionnaire to former officers of all the national banks that had surrendered their charters for any reason during the last decade. While our response to these questionnaires was not, by any manner of means, unanimous nevertheless we did get a very hearty response from many bankers. In most instances we received a very frank statement as to why they were influenced in surrendering the national bank charter.

Having obtained this information, the committee compiled it and tried to figure out what were the major causes for the condition in which the national banking system has found itself drifting. We received hundreds of reasons. Many of them said local conditions constituted the chief reason for change.

We have ignored entirely such reasons as overbanked conditions in the small towns, the merger of a national bank with a state bank where the state bank was a much stronger institution, any kind of a readjustment where the bank itself was in a somewhat precarious condition and any reason given which tended to reflect on how the national banking system was managed. We figured that these reasons were not, in themselves, a criticism of the national banking system, nor did they show any special preference to state chartered institutions.

Reduced to Four Reasons

OUR compilation finally resolved itself into four major reasons, as shown by the answers from all over the country. I am stating these in order and will comment on each one. Our recommendations will follow each. Then we will take the next in order and follow the same procedure.

"First: Compulsory membership in the Federal Reserve System without receiving adequate returns with the expense of membership overriding the benefits derived."

Our recommendations will need a few words of explanation from the fact that this reason originated largely among the smaller banks in smaller cities and communities. For example, a country bank in an agricultural district having to maintain its reserve in the Federal reserve bank or its branch in some, usually, rather distant city, found it necessary in most instances to carry also a correspondent bank account there in order to make quick transfers into the Federal reserve bank to maintain its required reserve.

On their balance in the Federal reserve bank they received no interest. Most of these country banks have not a sufficient quantity of eligible paper to use a Federal reserve bank to any extent for the rediscount privilege. Consequently, in most instances they are depending very largely on their correspondent banks in reserve cities and are not using the Federal reserve bank at all. They figure that the cost to them in maintaining membership is far beyond the benefits derived.

In the matter of the shipment of currency, we made an estimate in our section of the country and found that while the member banks have the privilege of ordering their currency from the Federal reserve bank and having it shipped without cost to them, about 70 per cent of the member banks continue to order through their nearest corresponding bank, largely for the reason that they get quicker delivery. Cost did not enter into that at all. As a result, that privilege was not very extensively used by the smaller banks.

Variety of Suggestions

HAVING analyzed the various reasons given by these small banks—and a great many of them, for example, wanted interest on the reserve deposits, many others wanted absorption of all the float by the Federal reserve bank. They had every kind of a proposition presented that would in some way give them a little better privilege, or use, of the Federal Reserve System—we were entirely agreed that the payment of interest on reserve bank deposits was economically unsound and that that would not be a recommendation of this committee.

The other things we placed in the order in which we saw their importance. While our recommendations in this particular instance may seem somewhat modest, we have purposely striven to make them conservative. Under this heading, therefore, the committee, recommends:

"That members of the Federal Reserve System be allowed to participate more generously in the earnings of the Federal reserve bank." And we have added another proviso which, apparently, is not taken care of in the present Federal reserve bank "and that distribution of Federal reserve bank resources among member banks be provided for in event of dissolution or liquidation."

I call attention to the fact that we are not recommending any specific

amount of earnings to be distributed to the member banks or in what manner distribution shall occur. Nevertheless, we were entirely unanimous that there should be, in some manner, a distribution of these excess earnings.

"That in computing the amount of reserves to be carried in Federal reserve banks, member banks be permitted to deduct from the total of demand deposits the amount of cash on hand and in vaults (provided that in central reserve city banks the amount of cash in vault deducted shall not exceed 8 per cent of required reserve; that in reserve city banks the amount of cash deducted shall not exceed 20 per cent of required reserve; that in country banks the amount of cash deducted shall not exceed 40 per cent of required reserve)."

These limitations were put in this recommendation because of the fact that the percentages as outlined are a little less than the present practice among member banks. Country banks, for example, maintain in their vaults 50 and a fraction per cent of their required reserve in cash. Reserve city banks maintain in their vaults something like 22 per cent of the required reserve. Central reserve city banks have something like 10 per cent.

Membership Withdrawal

"THAT a national bank with a capital of $50,000 or less be permitted to withdraw from membership in the Federal Reserve System with the right, however, to rediscount its eligible paper through its member bank correspondents in reserve cities under regulations provided for by the Federal Reserve Board."

Among the smaller banks in the country, particularly in the rural districts, there are a great many of them that want to retain their national bank charter. There are a great many of them that want to retain their membership in the Federal Reserve System. Nevertheless, they are fully convinced that they are not getting their money's worth in their membership in the System. This would permit them to retain their national bank charter, withdraw from active participation in the privileges granted by the Federal reserve bank but through their correspondent bank they could still use, to what little extent they now use, their rediscount privilege.

"That national bank and state bank members of the Federal Reserve System be permitted to secure their bills payable to Federal reserve banks and their Federal Government fiscal agency account not only with the Government bonds but also such other bonds as are acceptable to the Treasury Department as security for Government deposits."

That recommendation explains itself. We are limited now in securing our bills payable to Government bonds. The Treasury Department is satisfied with other kinds of bonds as security for deposits and if they are good for security of cash deposits they are certainly safe for the security of the bills payable to any bank.

Method of Examination

THIS next one is a general recommendation largely due to the fact that criticism was made of the manner in which banks were supervised and examined throughout the country, and more particularly the competitors of the national banks. The committee is soundly in favor of the system as followed by the National Bank Department in the Comptroller's offices. We do not want to see that curtailed in any way. We want to see it extended if possible.

To do that we felt that national banks may be put in a position where—and it is true in many instances right now—the stock in that bank is hard to trace, where the ownership is hard to find. The comptroller's office cannot, under present conditions, go beyond the bank that is being examined. We, therefore, make this general recommendation that affiliated companies, directly or indirectly associated with national banks, and also corporations, holding companies, investment trusts, or other organizations which now own or control 25 per cent or more of the capital stock of the national bank, be subject to examination by the Comptroller of the Currency.

Succession of Trust Powers

OUR second major cause for the defection of national banks, and this was more important in the case of the m rgers of the larger institutions and of very much lesser importance in the smaller banks, was the uncertainty over succession of trust powers and appointments in case of merger of a trust company with a national bank under national bank charter.

The Worcester County National Bank case has created a real uncertainty in the minds of the bankers of the country. That case, roughly speaking, declared that a national bank, merging with a trust company under a national bank charter, could not succeed to the trust business of that trust company without first qualifying for each separate trust. Many of the big mergers in New York City were influenced, very greatly, by that decision.

A Long Process

SO we realize that the best remedy for this is probably through the various state legislatures. A movement is afoot and is gaining in momentum to introduce bills in the various legislatures and try to have the provisions corrected if the needs justify it in any particular state, whereby a national bank would be permitted to succeed to the trust business of the trust company in case of merger. However, this will take time and we have made one other recommendation which, in our opinion, we believe will give more immediate relief, and in the case of the big mergers will be practically as satisfactory as merging both institutions into one.

Our recommendation is:

"That all national banks be urged to cooperate with state legislative committees to secure the enactment of state laws where necessary to permit national banks to succeed to the trust business in state banks and trust companies where a merger is consummated under a national bank charter;

"That a national bank member be permitted to own 66 2/3 per cent, or more, of the capital stock of a state chartered trust company, provided that the stock so owned shall not exceed in amount 50 per cent of the capital stock of the national bank owning it, provided such national bank has an adequate surplus. Such an affiliated trust company shall be under the examination of the Comptroller's office, may be operated in the same or adjoining building with the national bank and may have the same personnel of officers and directors;

"That a national bank charter shall carry with it a grant of trust and fiduciary powers with such limitations as to capital requirements as the law shall provide."

Loans and Investments

OUR fourth major reason was the more liberal state laws, both as to investment powers and loaning powers.

There is one to which we had a surprising number of answers. In many states state banks are permitted to lend up to 50 per cent of their capital and surplus to any individual party; other states as high as 20 per cent. National banks in competition with the state banks found that to be quite a serious handicap. It either meant that they should operate with an increased capital beyond what the state bank was operating under, or that they would lose a certain amount of good business in the community because they could not meet the state bank's competition.

There is also a very much more liberal law in the states with reference to the general character of assets which the bank may carry. State banks may make loans that are illegal for a national company. They can go very far afield at times in gathering up what may be called assets and they are not bound down as strictly as the national banks.

A Plan of Relief

THE committee, after considering all the reasons that were given by these various people, have wisely, I believe, desired to state that they do not recommend an increased percentage that may be loaned to any customer of the bank. Further, that they do not recommend a more liberal interpretation of what kind of assets the funds of the national bank may be invested in. We do believe, however, that there should be some relief given as a means of meeting the state bank competition among the smaller banks.

We have, therefore, made the following recommendation:

"That a national bank be permitted to own not less than 66 2/3 per cent of the stock of a securities company or an investment company, provided that the stock so owned shall not exceed 20 per cent of the capital stock of the national bank owning it, and that at the time such securities company or investment company is organized, or at the time the stock of such securities company or investment company is acquired, such stock owned by such national bank shall not be in excess of the amount of

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EDITORIAL

London Banks and Lancashire

THE American cotton states have an interest in the the success or failure of the Bank of England's vigorous attempt to reorganize, re-equip and renovate the mills of Lancashire. The entire "rationalization" program in Great Britain under the aegis of the principal British banks is a thing of importance to the United States even if only a small part of the plan is carried to completion.

On the one hand a revitalized British cotton or steel industry would be a stronger competitor in world markets, and on the other, a more prosperous England would be a better market for American exports. In neither case can the "rationalization" movement in Great Britain be ignored here.

Cotton growers, exporters and textile manufacturers of the United States, however, have special reasons for watching the clash of opinion between London and Lancashire. The fact that the bankers' program has the active support of the British Government has not assuaged a feeling on the part of the cotton industry that it is being treated like a bankrupt. It welcomes the aid of the banks but objects to the method. The movement among British bankers to take a more direct and active part in rehabilitating the nation's industries had its roots in the fact that many manufacturing concerns needed money but their earnings and outlook did not merit financial backing. The banks finally decided that the way to meet the problem was to require a substantial share of control in exchange for advances in credit.

In Lancashire the program thus far has consisted of merging small mills into larger units. Up to a certain point, as long as efforts were confined to small and relatively helpless firms the project was successfully advanced, but beyond that point the bankers encountered the strong individualism of the larger mill owners. There have been hints recently that if the latter choose to demur at the conditions, it is only a matter of waiting a year or two until further disintegration of the industry would compel acquiescence.

What Price Tariff?

THERE have been moments in American history when the tariff occupied the centre of the public forum. The issue was debated with that sulphuric vehemence which today marks prohibition. Recent months have witnessed a partial revival of this interest.

When Congress was asked to convene last fall to consider the revision of tariff rates on farm products the National Legislature decided to go the second mile with the Chief Executive. As the statute of imposts finally emerged it proved to be a worthy successor to its many predecessors. Foreign nations took scant pains to conceal their displeasure. In some countries threatened reprisals have already taken form. Diplomacy has softened these counter blows and garnished them with pretexts that mitigated their offensively retaliatory character. Nevertheless the battle is on. During the last stages of the tariff bill a thousand economists affixed their signatures to a manifesto protesting the economic iniquity of the legislation. Last month Ambassador Gerard published his list of the American Mighty and added that these lords of destiny had achieved their preeminence under the talismanic canopy of a protective tariff. The situation at present is somewhat as follows: Is Mr. Gerard right or can a thousand economists be wrong?

From the point of view of the national administration the picture reveals shadows. Our total of exports and imports for July was $488,000,000, the lowest figure since the industrial and trade nadir of 1921. Our automobile exports were the lowest since 1924 and 80 per cent below the total for July, 1929. How keenly Washington has followed these developments may be judged from the alacrity with which a favorable turn in our foreign trade in August was observed. The increase in the total of exports and imports to $517,000,000 was made the occasion of a statement to the press.

Although the prophets of free trade have not been slow to take advantage of the situation, even tentative conclusions on the basis of the available facts would be hasty. If these foes of protection will turn to Great Britain, the traditional protagonist of free trade, they will discover in her statistics of foreign trade scant comfort:

Total Foreign Trade of Great Britain

	1930	1929	1928
August ..	£122,690,000	£164,035,000	£159,918,000
July	135,977,000	160,070,000	156,374,000
June	126,287,000	141,391,000	158,831,000

From which it appears that free trade in practice must contend with trade adversities even as protection. Attractive as the doctrine of free trade seems in the class room the foreign trade policies of the world's great nations with one exception reject its precepts. Lamentable as the state of international trade is today it does not necessarily impose confusion upon the friends of protection.

Better Tone in Silver

THE decline in the price of silver has had the paradoxical effect of increasing production, particularly in Mexico. It appears from figures compiled by the American Bureau of Metal Statistics that mine operators south of the Rio Grande were driven by the cheapness of the metal to seek out areas of plentiful yield and concentrate on them. Mines of low productivity had to be abandoned, temporarily. The result has been that Mexico produced almost 10,000,000 fine

ounces more during the first half of this year than in the same period of 1929.

World production showed a net increase of 6,770,000 fine ounces for the first six months of 1930 compared with 1929. The total to July 1 this year was 108,-890,000 fine ounces. Production decreased in the United States and increased in Mexico, Canada and Australia.

Notwithstanding this increase and the political uncertainty in China and India the price of the metal seems to have steadied itself. American exporters and importers, therefore, can hope for a revival of trade with the Orient as soon as political conditions more favorable to commerce have been reestablished.

The Gold Standard and Depression

BUSINESS in England is not very good. Not long ago the Manchester Chamber of Commerce met to discuss the situation and derive what comfort they could from concerted lamentation. Furthermore they sought desperately—and possibly vindictively—for some cause of the common distress. Their ardent diagnosis led the assembly unequivocally to the gold standard.

"It is becoming increasingly evident," said the Chamber, "that there is not likely to be a yearly increase in the production of gold adequate to sustain the full volume of productive capacity and maintain a profitable price level for commodities. Whether this is due to the virtual sterilization of so much gold in certain countries or to a check on the annual increase in gold production is beside the point. The fact is that the monetary position at the present moment is one of the greatest barriers to the recovery of trade in general and the cotton trade in particular."

The Manchester Chamber of Commerce actually suggested that the gold standard be discarded and some other "adequate" monetary system substituted. One might suspect in all this the fine hand of John Maynard Keynes. The gold standard has had no more vigorous and articulate adversary than the British economist with the possible exception of Irving Fisher in this country. In periods of distress it is inevitable that men should seek causes and attempt remedies. Mankind has been afflicted by no major crisis during the past century and a half which has not resulted in numerous indictments of the monetary standard. It is a part of the crop of depression. Unfortunately for the advocates of managed currencies the gold standard has given a good account of itself. Fortunately for the gold standard and the stability of trade and commerce the case against it has consisted almost exclusively of iterated generalities. One hears such statements as, "since prices are falling the gold standard must be responsible."

Our greatest peril is that we should succumb to any one of the many alluring substitutes during some such economic phenomenon as the present. The post-war depression produced a harvest of proposals in the consideration of which Congress spent many hours. It will be ample time to regard such alternatives when the gold standard has definitely broken down. If we then discover within the race a group of supermen endowed with the ethical probity of angels willing to assume the responsibility of manipulating the price level we may then consider some more "adequate" standard.

Should the Average Man Spend More Money?

THE newspapers the other day carried far and wide the advice of an economist—a way to cure the present dullness in business. In substance it was,—everybody spend more money.

The man out of work, who dubiously looks at his savings account and estimates how long it will serve him, may not be sure that for him this is good advice. Prudence tells him to make it last as long as he can. He feels like a shipwrecked sailor in a life boat who counts the scanty supply of food and puts himself on short rations.

The workman who has seen his shop mates laid off from time to time and who wonders if he will be next, may not be in a mood to follow that advice, especially if the margin between what he earns and what he must spend is precariously small.

Spend more! How does that sound to the farmer whose crops have been burned up by the drought. Where will he get the more to spend? Will that procedure help things for the wheat farmer and his brethren?

Spend more for what? There is an abundance of wheat, and bread is the staff of life. If we could move that wheat at good prices, then would we quicken business. So suppose everyone buys wheat and takes it home—five or ten bushels of golden grain, what will we do with it? Or, to be more practical, let us double our purchases of the staff of life in all its forms. Having done that only to find that we are wasting, will that, in the long run, help things much?

But wheat is a staple and often in bygone times far superior to some of the currencies we read of, for have not we that old-fashioned simile "As good as the wheat"? If the world will accept wheat in exchange for other goods at what the wheat grower thinks is a fair price, many a man in the grain belt will spend more and thus improve the condition of business. Perhaps more spending would make business better, but might not more spending have something of the same dangerous artificiality about it that has characterized our booms?

If spending more is to be applied to all alike, then the great industries, already with too much finished product on hand, are logically to make even more products, not knowing when they may sell, or how much cheaper in an era of declining prices they may purchase raw material at some later date. And would a corporation following such a policy improve its position at the bank when it sought a loan by the statement that it was just spending more to make business good? Ergo, if the advice is not good for corporations of great capital and resources, how can it be good for the average man?

The new philosophy of spending may be a sound philosophy and just the thing to make the wheels go round but the world for the most part having been developed to its present state through individual industry and individual thrift may be slow to enthuse over this panacea. Though he may not stop to reason it out, the average man may have a premonition that it still is good to be prudent in his expenditures, making his budget according to his income with a bit of consideration for sickness, unemployment and the unexpected.

Philosophy is delightful but unemployment, want, and destitution are grim facts and it is cash that the chain store demands from the ultimate consumer.

The Trust Company Division

Membership Now Totals 4,246, an Increase of 409 During the Year. Almost 100,000 Copies of Booklets, Proceedings of Regional Conferences and Other Information Dealing With the Operation of Fiduciary Companies Distributed.

"THE trust business has continued unabated in the face of a general business situation which is far from happy," said John C. Mechem, vice-president of the First Union Trust and Savings Bank, Chicago, when, as President of the Trust Company Division, he opened the 34th annual meeting in Cleveland on Sept. 30.

Gilbert T. Stephenson, vice-president of the Equitable Trust Company, Wilmington, Del., was elected President of the Division for the coming year. Thomas C. Hennings, vice-president of the Mercantile Commerce Bank & Trust Company, St. Louis, was elected Vice-President. The Division chose the following five members of the Executive Committee: A. F. Young, vice-president of the Guardian Trust Company, Cleveland; C. Alison Scully, vice-president of the Bank of Manhattan Trust Company, New York; Frederick R. Behrends, vice-president of the California Trust Company, Los Angeles; Evans Woollen, president of the Fletcher Savings & Trust Company, Indianapolis; and H. O. Emonds, vice-president of the Northern Trust Company, Chicago.

A Varied Program

THE Division heard three principal addresses. Mr. Merlin H. Aylesworth, president of the National Broadcasting Company, spoke on "Radio and the Trust Idea." A summary of his remarks is published in this JOURNAL. Robert F. Maddox, chairman of the executive committee, First National Bank, Atlanta, described the ways in which a trust department can benefit, directly and indirectly, the commercial business of a bank. His address appears elsewhere in this issue.

The President's address by Mr. Mechem dealt with the swift growth of trust business throughout the United States, problems to be met and how the Division is setting about to meet them.

"As yet we do not have the actual figures of the growth of our business," he said, "because those will not be available until the first of the year. However, we all know, from our experience and from the reports that come to us in our headquarters in New York, that the volume of business has increased substantially and that the total for the year will compare favorably with past years. I think it is a great tribute to the trust companies and the banks of the United States doing a trust business, that during such a period of business recession they can go on uninterruptedly in the progress of the corporate trust idea. It is an evidence of the confidence which the public has in our institutions, that in times of stress they should turn to them for safety and security. It is proof of the preeminent position which trust service is assuming in the vast field of American banking and American finance.

Gilbert T. Stephenson,

Vice-President, Equitable Trust Company, Wilmington, Del. Incoming President, Trust Company Division, American Bankers Association

"What part has our Division played in fostering this growth and in inspiring this confidence? In the first place, during the year the Division has broadened its scope so that more than ever is it the servant of American banking. No longer is the Division the official representative of a limited number of institutions doing business under the title of 'trust companies.' It serves and represents that great body of institutions throughout our country, some doing business as national banks, some as savings banks, some as state banks, and some as trust companies, but all performing under one or another of these titles, the trust function.

409 New Members

"AT the close of the Association year on Aug. 31, 1930, the total membership of the Division numbered 4,246, an increase of 409 institutions during the year. It is the analysis, however, of this growth that is important. Of the total of 4,246 institutions, now members of the Division, but 1,387 are trust companies, while the combined national, state, and savings banks with trust departments number 2,859. Thus actual trust companies now number less than one-third of the total membership of the Division. How great a change has been made can be judged by comparison with a year ago, when the trust company members numbered 2,046 and the combined national, state and savings bank membership, 1,791.

"Thus, during the year the trust company membership decreased 659, the national bank membership increased 888, the state bank membership increased 140, and the savings membership increased forty. It can truthfully be

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Radio and the Trust Idea

By MERLIN H. AYLESWORTH
President, National Broadcasting Company, New York

Country Spent Approximately $1,000,000,000 for Receiving Sets and Accessories during Past Year. Broadcasting Industry Envisioned as Increasingly Vital Factor in World Development. Called an Important Service Resting on Public Confidence.

MERLIN H. AYLESWORTH, president of the National Broadcasting Company, in an address before the Trust Company Division in Cleveland, Sept. 30, said that both radio and the trust business were important public services with brilliant futures ahead of them.

"You," he said in part, "exercise a franchise in your business; so does radio broadcasting exercise a franchise of public service which will last just as long and no longer than the people have confidence in the fairness and the fineness of radio broadcasting.

$1,000,000,000 for Radio

"I WONDER if you know that there are more radio sets in the United States than all the countries of the world combined. There are! I wonder if you know that the people last year, in a year of depression, spent a billion dollars for radio sets, tubes and accessories. I wonder if you know that the National Broadcasting Company in the next twelve months will spend $10,000,000 for talent alone to entertain the people of the nation and another $15,000,000 to carry the programs out through the stations, such as WTAM in this city, our local contact to the people of the country. How they love the good things and how they detest the bad!

"I believe that one of the great functions of the radio today is the carrying of fine music and the creation of young artists in this country and composers, carrying the message of fine music to the nation and to the world. Whether they be out in the mountains or on the plains or away in the isolated districts or in the Bronx of New York, people are hearing fine music for the first time and learning to love it.

"The two great factors which radio is serving outside of that are religion and agriculture. I say to you, as radio has carried out the programs of the Jews, the Protestants and the Catholics through a regular service to all of the people of the country, it is the first instrument in this country that has moved a step toward the religious brotherhood of man.

"But I do think, supplementing the church and building it up as a strong force, you have in radio broadcasting—carrying the finest music and the messages and the greatest preachers of any faith into all of the homes—the breaking down of intolerance, a better understanding of each other.

"Therefore I say that first in religion comes radio. Watch its pace as it moves forward through the homes of this country. There are more people who listen to religious exercises over the radio than go to all the churches in the country. You do not have to go to church to get religion. It is a fine thing to listen to it at home and then go to church too.

Agricultural Relief

"THE second factor, and probably a more important factor, is that radio is one force that will resurrect agriculture. It is greater than all the legislation that you can pass. It is finer than all of the farm organizations and the capacities that they have and the influence they have had in the past. I can best tell you why by a program on the radio that goes out every noon, each day a week, at twelve o'clock.

"I am referring to the Dinner Bell Hour. That is dinner time on the farm. Men who have buried themselves away in the Department of Agriculture in the United States and Washington, who have worked out and developed cures for every type of animal disease and crop disease, who have given, if you please, to the Government that which might come back to them in money from industry, and who have been buried away down there unknown, they have the opportunity to tell the folks direct the latest cure for cholera and the new developments in the cure of diseases caused by bugs and insects and plants. They speak on crop diversity, condition of crops today, immediate markets for cattle and sheep and hogs.

"The weather, the most important thing to the farmer, is forecast to them by radio. It can come no other way. The city newspaper has not the space available for farm news, and the country magazine gets there too late to give the daily news. So this great new instrument brings in the Farm Board each day with its plans of development. It brings in the farm organizations each day, not entertainment, which the farm home gets at night, not the music that comes to the farmer's family for the first time—and because of radio—but information about the farmer's business.

Farmers Use It

"THERE has been a great development toward the organization of agriculture in the last twelve months. Farmers are individualists, as you know. They do not want to be organized. They want to act alone. Radio has organized them. It is a fine thing for every man and for every industry in the country that we are becoming organized. It is not done by legislation and it is not done by giving the farmer something for nothing, which he does not want if he knows what he is talking about, but it is showing him how to make a cooperative market and how to organize in his community.

"I could tell you many interesting things that radio is doing and will continue to do. I could tell you of a picture which I see developed in two years in New York City. I see three blocks, from Forty-eighth to Fifty-first Streets, and from Fifth Avenue to Sixth Avenue, a very long block; I see there a 64-story building with thirty radio studios, several larger than theaters, all equipped for television, all equipped for taking pictures in the studio for the film. I see a theater with from 6000 to 8000 seats, greater than National Music Hall, holding the greatest entertainment in the world. I see a great moving picture house with 6000 seats, in this same block. I see a theater of the drama with 1500 seats, and a musical comedy theater with 2500 more. It is not beyond the realm of possibility, and it is very apt to happen that the Metropolitan Opera House will be built in this block that I speak of.

"The buildings are being torn down now. Mr. Rockefeller will spend $250,-

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Banks Need Trust Departments

By ROBERT F. MADDOX
Chairman Executive Committee, First National Bank, Atlanta, Ga.

Fiduciary Service Benefits Entire Institution by Establishing Good Will, Attracting New Customers and Keeping Old Ones From Shifting Accounts. More Than $100,000,000,000 in Life Insurance Represents An Enormous Field for Future Growth.

THE marvelous growth which the United States has made during the past three decades has astonished the world, and in this development the banks and trust companies have taken a prominent part.

I was very much interested in looking over the proceedings of the Twenty-fifth Annual Convention of the American Bankers Association, which was held in Cleveland in 1899. Walker Hill, president of the American Exchange Bank of St. Louis, was our president; Myron T. Herrick, president of the Society for Savings, Cleveland, was the chairman of the Executive Committee, and George M. Reynolds, cashier of the Continental National Bank of Chicago, was our treasurer.

Striking Changes

AT this convention the Trust Company Division, which was organized in 1896 and was the first division to be organized in the American Bankers Association, celebrated its third birthday. The combined capital, surplus and profits of the 190 trust companies belonging to the Section at that time aggregated $162,000,000, compared with a membership today of 4250 having aggregate resources of more than $20,000,000,000.

At that time Cleveland boasted of a population of nearly 400,000, with fourteen national banks and thirty-three savings and other banks, with a total of $118,000,000 in deposits.

At the time this convention was held in Cleveland, the country had entirely recovered from the panic of 1893 and conditions were most prosperous throughout the United States, and I think it will be interesting to quote a few paragraphs from the annual address of President Hill at that time. He said:

"We enter under the most auspicious circumstances another year, which will probably show the greatest development of the resources of this country. However, let us realize our responsibilities, put a curb on wild speculation, and in all things choose a 'Golden Mean.'

"In times of such prosperity as this, bankers will be tempted with many visionary schemes in which large profits are promised. These must be avoided while we must not too conservatively deny aid and encouragement to the development of our most wonderful resources.

"It is to be hoped that the present condition will not again stimulate a fever of speculation which, when it breaks, as it did in 1893, may reduce us to a long and anxious period of convalescence.

"We must not forget the lessons of the past. In times like these we take our reckoning and set our course. With clear skies and favoring winds we know that storms must come, and we should feel the responsibility of the lives and cargoes we carry.

"Consolidations and combinations are the order of the day, and in many instances it would be desirable to consolidate banks, where the smaller banks separately cannot use their deposits with safety to their depositors, or profit to the stockholders, after paying the cost of administration."

Thirty Years Ago

WE can hardly realize that the quotations I have just read from the address of a former president of the American Bankers Association were made thirty years ago. Unfortunately, the public disregarded his wise words of caution then, as it has disregarded similar words of caution during the several cycles of prosperity through which we have passed.

Some day we may profit from the records of the past and our own experience, but it seems to be a hard lesson to learn, as the vision of quickly accumulating great wealth seems to dim our better judgment.

During these thirty years the corporate trust idea has been fully developed and the trust services of banks and trust companies have reached their greatest benefit to the public.

It is well known that corporate trust business in this country was done exclusively by state-chartered institutions until the Federal Reserve Act gave to the Federal Reserve Board the power to grant to national banks the privilege of doing trust business. It was but natural that the state-chartered trust companies, which first had the exclusive trust business, should, with the growth of the country, enter the banking field, and by the same token it was but natural with the development of the corporate trust business that the national banks should enter the trust field, and it is very gratifying that such harmony and friendly cooperation now exists between the two kinds of institutions doing this very important and rapidly growing class of business.

Work of Trust Division

THERE are now about 3500 banks and trust companies with well equipped trust departments, about equally divided between the national banks and the banks or trust companies operating under state charters.

I think the rapid growth of this business is largely due to the activities of the Trust Company Division of the American Bankers Association. It has constantly striven to raise to higher ideals the administration of trust funds, the protection of property, and the betterment of all trust service.

The regional trust conferences which it has promoted in the United States during the past few years have been very helpful to trust officers and have stimulated a desire to open new trust departments in many banks, and the accompanying local publicity has done much to make the public more trust minded.

I might also add that the several better bank management conferences which have been held by the American Bankers Association in several sections of the country have done much to improve general banking practices, and I believe that both banks and trust companies, as a result of these meetings, are in better condition today and are serving the public more satisfactorily than ever before in our history.

Another thing which augurs well for the continued growth of this business is the great asset and basis for future business to be found in the satisfactory handling of estates by corporate

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The Savings Bank Division

Plan Campaign During the Coming Year to Popularize Thrift. Definite Program Being Prepared for General Distribution and All Bankers Will Be Asked to Cooperate. Work and Prospects of White House's Home Planning Committee Described.

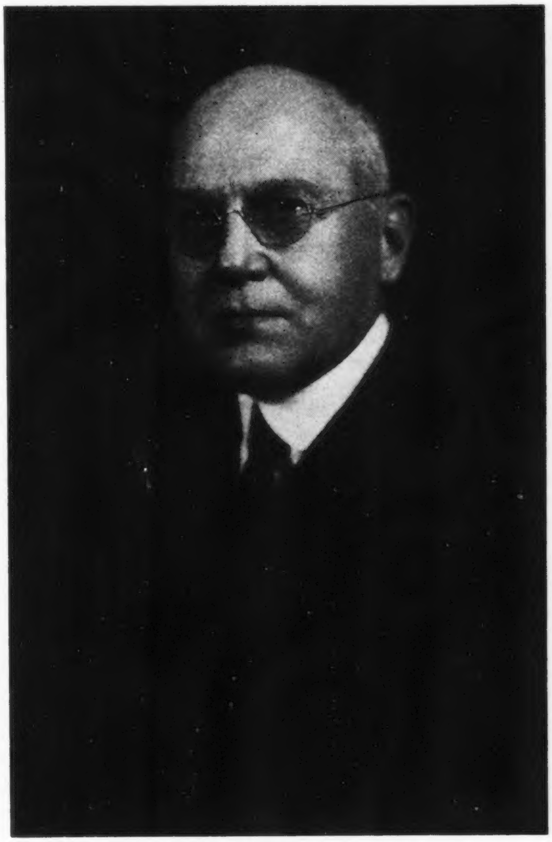
THE annual meeting of the Savings Bank Division in Cleveland was called to order October 1 by the President, Mr. Austin McLanahan, president of the Savings Bank of Baltimore. In his address as retiring President of the Division Mr. McLanahan discussed the essentials of a sound investment policy for savings banks. The speech appears in full elsewhere in this issue.

Officers Elected

MR. A. C. ROBINSON, president of the Peoples-Pittsburgh Trust Company, Pittsburgh, Pa., was elected President of the Division for the coming year. Mr. Jay Morrison, vice-president and Secretary of the Washington Mutual Savings Bank, Seattle, Wash., was elected Vice-President. The following three persons were elected for the three-year term on the Executive Committee: Mr. Henry Bruere, vice-president, Bowery Savings Bank, New York; Mr. R. J. Campbell, vice-president, the Fidelity National Bank & Trust Company, Kansas City, Mo.; and Mr. Howard Moran, vice-president, American Security & Trust Co., Washington, D. C., Mr. J. V. Holdam, assistant vice-president, First National Bank, Chattanooga, Tenn., was elected to the committee for one year.

Robert B. Umberger, vice-president of the Personal Loan and Savings Bank, Chicago spoke on the limitations of personal loans, giving the Division the benefit of considerable experience in making a profit out of small, character loans. His address is published elsewhere in this issue of the JOURNAL. Mr. McLanahan called for questions and in the discussion that followed Mr. Umberger said that the average rate of interest charged by personal loan companies was 6 per cent and 2 per cent per year. He thought that this rate was necessary in order to maintain the business on a profitable basis.

"It is a discount rate," he said. "The business is entirely dependent on turnover and volume. There are some personal loan companies that have a rate which may be percentage up to a certain point. Beyond that point it is a flat maximum. In the state of Michigan I believe, they charge up to $15, beyond which they cannot charge any fee." He said that delinquents were supposed to pay the costs of collection although this arrangement fell far short of paying the cost of maintaining a collection department. He thought that penalties ought to be rigidly enforced in spite of the fact they were not revenue producers.



A. C. Robinson,

President, Peoples-Pittsburgh Trust Company, Pittsburgh, Pa. Incoming President, Savings Bank Division, American Bankers Association

Colonel Leonard P. Ayres, vice-president of the Cleveland Trust Company, pictured the great upward and downward swings of business activity and demonstrated statistically that the present period of retarded economic motion differs only in small details from the major depressions of the past. He expressed the confident belief that the United States was coasting along the bottom and that there was no way to go from here but up. His address appears elsewhere in this issue.

Thrift Campaign

MR. ROME C. STEPHENSON, vice-president of the St. Joseph County Savings Bank, South Bend, Ind., and incoming President of the Association, was present at the meeting. Mr. McLanahan in introducing him, said that Mr. Stephenson had expressed himself as very eager during his administration to see the thrift element in banking more strongly emphasized.

"I take it," said Mr. McLanahan, "that one of the handicaps under which the Division operates is the fact that it is called the Savings Bank Division. Although savings is a very important part of the work of the Division, the Division might properly be called the "Pass Book Division." The "Pass Book Division" of the American Bankers Association, as far as deposits are concerned, is larger than the "Checking Division," which is represented by the commercial banks. It has been a handicap for this Division that it has been called the Savings Bank Division. It has given the impression of having to do with very small and detailed portions of the banks themselves.

"We have now come to a time when the diminishing outlet for commercial funds and the necessity for employing the funds in long periods, and the amount of money that has been ac-

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Stability the Investment Goal for Savings

By AUSTIN McLANAHAN

President, Savings Bank of Baltimore, and Retiring President, Savings Bank Division, American Bankers Association

Wide Fluctuations in Bonds Over Long Period Must Be Kept in Mind While Making Purchases. Competition with Building and Loan Associations in Their Own Field Urged in Place of Complaints. Making Small Loans Suggested as Profitable Field.

SAVINGS, the result of effort and self denial, implies trusteeship when the money is deposited by the owner in the hands of another for safekeeping. If the word "savings" is used in describing the type of deposit solicited, the responsibility of trusteeship cannot be escaped. Savings and time deposits may be herded together but it is the time deposit that benefits from such association. Such trusteeship now covers the major portion of all the deposits in the banks of this country and the responsibility for the proper employment of such funds is not to be lightly undertaken.

Their administration comes under the first of the three, or more, major phases into which trust funds which are growing, with remarkable rapidity in this country, may be divided, namely, the day-to-day trust, the period trust and the perpetual trust.

Differences Between Them

THE savings fund, or day-to-day trust, is, theoretically, terminable at any time. Liquidity is therefore a prime necessity. The period trust is best exemplified by funds or estates committed to a trust company, or other trustee, to be administered during a period more or less exact, and upon the termination of the period to be turned over to a beneficiary. Manifestly, the funds in this trust can be, and should be, invested in a different manner from those in the day-to-day trust. The trustees know approximately how long they will have the funds in their hands and have therefore a wider field of investment open to them. The perpetual trust is exemplified by the endowments of universities, hospitals, benevolent, charitable and religious institutions of all kinds. Unless otherwise stipulated in particular cases, the aim of such a trust should constantly be to increase the principal and income of the estate. It is the income only that is used. The principal is not payable now or at any future date and in consequence the field of investment is much larger than either of the other two mentioned.

In view of the behavior of their stocks it seems hardly correct to include so called investment trusts in this category, although it would seem that this is what they really are, or should be. There may be other forms but these will suffice to indicate the various fields covered, the diversity of their nature and extent, and the difference of their objectives. A man may be a trustee for each of the various types mentioned but he should not approach them all with the same viewpoint. At the moment we are concerned only with the day-to-day trust as it appears in the savings account of a bank.

From what has already been said, it is apparent that the maintenance of the principal at par is the first desideratum. Manifestly this can be best accomplished by cash in bank, by well margined collateral loans, in some cases by first class commercial paper of short life or bankers acceptances and by loans secured by first mortgages. These represent the non-fluctuating mediums. So safe has experience proved this to be that by law, in some states, the mutual savings banks are allowed to invest up to 70 per cent of their entire resources in first mortgage loans. Such loans have also the advantage of paying a higher rate of interest than can be obtained from bonds affording equal security.

Compete Instead of Complain

HOWEVER desirable such loans might be from the standpoint of security and rate of return, most commercial banks do not care to invest much of their savings deposits in mortgages, but prefer, in case they loan on mortgages at all, to sell the mortgages to their customers. There is no objection to such a policy; in fact it seems strange that in many localities, where the banks are keenly feeling the competition of building and loan associations, the banks do not compete with the building and loan associations on their own grounds—in the making of mortgages—instead of complaining that the building and loan associations are taking away their deposits.

So long as the investment is confined to loans such as have been indicated they are presumably always worth par and therefore the principal remains stable. It neither increases nor decreases. The items have, so to speak, no market. When, however, the market element is introduced, as by the investment in bonds, the investment may be said to be in a fluctuating instead of a stable medium, because the price of the bonds and consequently the principal of the investment may change from day to day.

This is due to the fact that bonds usually mature at a long instead of a short period. They therefore reflect through their life the vicissitudes of business, of credit, of money conditions. They advance or recede in price as these influences play upon them. They are negotiable, generally more easily bought than sold. If the credit of the borrower is maintained during their life, they are refunded, occasionally paid off, at maturity; and if the credit of the borrower is not sufficient to sustain them and default occurs, the small bond holder is relatively helpless in obtaining his rights. The bank owning the bonds has only a share with many others in a loan. Their great advantage, in comparison with the stable media, is this very marketability, their salability, which enables them to be converted into cash practically at once. In times of crisis, however, the sale of bonds is generally accomplished at a considerable loss. There is usually an abundant supply of them which is often not the case with the desirable loans, the stable media above referred to.

The ideal investment for savings funds would be in short term loans,

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Stability the Investment Goal for Savings

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secured by readily marketable collateral and mortgage loans which are constantly increasing in security by reason of the amortization of the principal of the loans.

This plan, however, has not been followed as a general rule, partly because there are usually not enough short term loans and mortgages available, partly because of the desire to obtain the marketability afforded by bonds and the inclination to avoid the trouble of reinvestment. Cutting coupons does not require much care and thought. Most savings funds contain a large percentage of bonds, ranging from our own Government bonds and those of governmental agencies, through the railroads and public utilities to the industrial bonds. Also, in the case of many funds, the investment of a part in the stock of the metropolitan banks has proved profitable over a long period. Where such stocks are bought on a basis to yield a satisfactory return, this may be all right, but it is questionable whether it is justifiable to buy stocks of even the strongest banks when they are selling at such prices as they were last summer.

Now we contemplate the necessity of meeting any withdrawals as they may come and for that purpose we keep a proper proportion of cash in our tills and to our credit in strong banks. For a secondary reserve we rely upon call and short term loans, bankers acceptances and the like. Our own Government bonds did not constitute so good a secondary reserve last year as the items enumerated above, because, while they could be borrowed against through the Federal reserve banks, they suffered a considerable reduction in market price and in many cases would have had to be sold at a loss if necessity required. They are better regarded as a tertiary reserve.

"Cream of the Lending"

SAVINGS funds being a collection of deposits from the community in which the bank is situated it would seem that they should be used, so far as possible, to further the welfare of the community, but owing to their nature, care should be taken that they are amply secured. They should be used, so to speak, to do the cream of the lending business in that community leaving the lending which involves a greater risk, and in consequence a higher rate, to the commercial banking side, which is better equipped to take such risks. In short, in the handling of savings bank funds, it is not so much what one makes as what he does not lose. There seems no good reason therefore why savings funds should not be made available for small personal loans to worthy borrowers provided the notes bear the endorsement of at least two good names. This is a new field, but promises well for the future as the interest received is higher than can be obtained by good bonds and has a great advertising value for the bank.

Bonds which have been called for payment, the funds for which have been deposited with the trustee in anticipation of the call date, are the equivalent of a time deposit in the trustee's hands and are a fine investment for savings funds.

It is hardly necessary to refer to the desirability of bankers acceptances, of loans amply secured by good bonds or good stocks listed on the New York stock or even smaller exchanges and actively traded in. Nor is it necessary to discuss the relative proportions of cash and short term loans which each bank should carry. This has been amply covered in various publications and is dependent upon the local conditions under which the bank operates.

When to Buy Bonds

POSSIBLY, it would prove more interesting and helpful to discuss in a general way the subject of bonds for savings funds, when to buy them, what to buy and how many and also when to sell. Insurance fund investors have been quoted as saying the time to buy bonds is when one has the money. There is no better guide than the old saying, "buy cheap and sell dear." There is a time to buy and a time to refrain from buying. Or, if funds are pressing and there is no other outlet for them save the purchase of bonds, the statement may be modified to "There is a time to buy long term bonds and there is a time to buy short term bonds." The bond buyer wishes to maintain his principal unimpaired and to obtain as high a return as he safely can. As he is dealing in a fluctuating medium, this resolves itself into a continuous effort to maintain his averages of principal and interest. He may be described as "fighting his averages." Consequently in times of very easy money he will buy short term bonds in the hope that at their maturity he will have an opportunity to buy long term bonds to much greater advantage. He may have to sacrifice interest return but he is guarding against depreciation of principal. On the other hand in a period of very tight money, he buys long term bonds and obtains a very satisfactory interest return as well as a virtual assurance that his principal will appreciate.

It should be remembered that a corporation should borrow as much money at a very low rate for as long a time as possible when the opportunity offers. Furthermore, the bankers who do the financing for the corporations advise this procedure. But the original purchasers of the long time four per cent bonds of our leading railroads have probably often regretted that they purchased the bonds when they did, not because of a lack of security in the bonds, but because waiting a few years would have afforded them an opportunity to purchase the same bonds at much more attractive levels.

Long Term Uncertainties

BUYING a bond is merely lending someone money. If one lends an individual money for six months a low rate of interest may be accepted, and when the period of renewal comes around a banker may demand payment or the loan may be renewed and the rate adjusted to that then prevailing. In buying a long term bond, however, the maturity is in the distant future and there is no such chance of readjustment. No one can tell what vicissitudes may come to a bond or the property it covers over a period of twenty-five to fifty years. It may not be laid aside and forgotten. For this reason it is desirable not to have too extended a list of bonds. Too great diversification may be less safe than a relatively small diversification. Consequently, it is well to have a minimum limit of the amount of any issue of bonds, say $10,000 or $50,000 or more, as the size of the fund may make advisable. Do not buy a small lot just because it will not hurt to have them. Buy such an amount as will hurt the bank to have, if they are not good. This will cause one to investigate thoroughly before buying and watch the bonds after they are bought. It is not necessary and sometimes not desirable to buy all one wants of an issue at a time. Piecemeal purchasing may be more profitable. It is not enough to know what one has, but the banker must know as much as possible about what he has. Specifically then, what bonds to buy? Primarily listed bonds, or unlisted bonds having a ready and constant market. Do not forget the necessity for liquidity. Manifestly, our own Government bonds are desirable because of their security, their ready marketability, their availability as collateral. In short, because they are the premier bonds of the world today.

When it comes to the bonds of other governmental agencies, like states, counties, municipalities and the lesser forms, the question of taxation is the important consideration because, except in the largest and strongest, such bonds suffer

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Stability the Investment Goal for Savings

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at times from the lack of a ready market. They are seldom dealt in on exchanges, and the quotations for them are made by dealers. In a poor bond market they are not readily salable. Save, therefore, as investment in such bonds may be advisable from the standpoint of taxation they do not seem as desirable as the larger issues of the best railroads and public utilities, because the return on them is not so good as on the railroad and public utility bonds and they have not so good a market. Where such bonds are serial issues, however, a particular maturity may be desirable.

Foreign Hazards

WHEN it comes to bonds of foreign governments great care is necessary. A government bond should not be bought because of the resources of the country, but because of the well-balanced budget, stability and good faith of the government. Since the war the stability of many governments has hardly been sufficiently proved. It is probable that the investment of savings funds in foreign government bonds will become increasingly justified as time goes on, but great caution is certainly advisable at present. The decrease in the yield on capital throughout the world indicates that a greater proportion of foreign financing will be taken care of at home.

Bonds secured by first liens on valuable portions of our prosperous railroads serving thickly settled portions of our country, or connecting thickly settled portions, have for years enjoyed a ready market for trust funds. The older mortgages were for definite amounts and where they were all issued and the subsequent improvements were financed by junior mortgages their security increased with the growth of the country. They enjoyed the increasing security of the unearned increment just as a first mortgage on valuable downtown real estate enhanced in security. The best of such bonds are by many of our richest states made legal investments for trust funds and because the supply of these legal bonds is relatively limited, they command a scarcity price. They also enjoy a fine market. If therefore one is seeking marketability, they are most desirable. Their security is such that their market price is hardly influenced by this consideration, but mainly by the ruling interest rate for prime investments. They should not, in consequence, be purchased at or about the top of a high bond market, because with the tightening of money, they will recede in price. There are many bond issues which because of some technicality are not legal for trust funds in many states, but whose security is unquestioned and which yield more than the "legal" bonds. They also enjoy a good market. The point to be emphasized is that it is well to be on the lookout for such special considerations as "legality," tax exemption in certain states and other earmarks on special issues of bonds which make them more valuable to someone else than to the savings bank.

Convertible Issues

JUNIOR issues of good railroads are in many cases good investments, and in the case of especially strong railroads, it is practicable and often very profitable to buy bonds convertible into stock. Manifestly, such a bond should not be purchased when it has had a very considerable advance and is selling on a basis to yield much less than could be obtained from a better secured bond.

Railroad equipment bonds constitute a very desirable investment for savings funds, because of their varied maturities and their record of safety. Equipment bonds are also issued by tank car and other special equipment companies, but these do not seem so desirable as the equipment bonds issued by the railroad companies themselves. The difference in the quotations for the two classes of equipment bonds and their ratings indicate the difference in their investment standing.

The history, growth, earnings, prospects and last, but not least, the ratio of bonded debt to stock should all be considered in determining what railroad bonds should be included in the portfolio. The railroads will always be necessary to carry heavy freight in this country and it should be remembered that during and since the war, railroad mileage has not greatly increased. They fortunately escaped the inflation that happened to most businesses and they have benefited by the great growth and prosperity of the country in the past decade. They seem to be more firmly entrenched as a necessary part of our economic life than ever before. Public utility bonds have enjoyed an increasing popularity in the past decade. The remarkable growth in their service and earnings, the fact that they carry no inventories and that their business is practically for cash, has placed them in an enviable position in this period of depression. They are dealing in necessities and this makes them to a large degree depression proof.

Franchise Means Monopoly

THE outstanding characteristic of public utilities is the fact that they enjoy a right to do business, called a franchise, which gives them an exclusive field in most instances for their activities. In short, they enjoy a monopoly in their field. Due to the amazing rapidity of their growth and the extension of their services they have been able to operate at a constantly reduced expense ratio and this has enabled them to pass on to their consumers a portion of their prosperity in reduced rates which has in turn increased their popularity.

However, in the purchase of public utility bonds, it is important to know whether the franchises extend beyond the life of the bonds to such a period as to make the refinancing of the bonds practicable at maturity. An investor in public utility bonds should acquaint himself with the various kinds of franchises which are granted. This is becoming increasingly difficult due to the size of the operating companies which now issue bonds covering properties and franchises in a considerable number of communities. The traction situation in Chicago is a good illustration of what may happen to bonds maturing at the same time as a franchise, though secured by property valued greatly in excess of the amount of the bond issue, and earning by a wide margin throughout their entire life the interest upon the bonds.

The complexity of the financial structure of many of the public utilities also makes difficult a clear comprehension of the security of the bond. Efforts are being made by some of the companies to reduce this complexity and render the situation more clear.

It is desirable to buy closed mortgage bonds on public utility companies operating under satisfactory franchises in large and growing communities, but such bonds are becoming more scarce each day. Many such issues are being called and replaced by refunding or "open end" mortgages.

Result of Rapid Growth

THIS represents another phase of public utility bonds. The companies argue that the growth of their business is so rapid and the necessity for supplying new capital so great that it is impracticable to issue a limited amount of bonds, that ample security is afforded, and their needs best served, by what is called an "open end" mortgage, permitting an unlimited amount of bonds to be issued under restrictions as to the percentage of bonds to be certified, based upon cost of new property, usually about 80 per cent of the cost, and also that the earnings of the company for a period preceding the new issue, usually twelve to fifteen months shall be say one and three-quarters to two times the interest on the bonds outstanding together with the new bonds to be issued.

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Profit Margin on Small Loans

BY ROBERT B. UMBERGER
Vice-President, Personal Loan & Savings Bank, Chicago

Sound Policy Avoids Encouragement to Chronic Borrowers. Character Is the Best Possible Collateral but There Is No Exchange Where One Can Call and Ask the "Market" on Smith, Jones or Brown. Returns Are Small. Costs Must Be Low.

I SHALL discuss that type of personal loan which, measured by the standards of banking, best fits into the machinery, the usage, and the experience of banking, and has stood the test.

This personal loan is represented by a note given for one year, signed by the borrower, his wife, and at least two other persons of the same relative standing in the community. Payment is provided through serial deposits in a reserve account which is used to pay the note when it becomes due. The loan is small, generally speaking. Therefore, this loan is three-name time paper, of small denomination, and secured by character—the best collateral on earth.

Costs of Transaction

AN important limitation of this personal loan is the limitation of expense—the expense of making, servicing, and collecting. The average loan is about $275. Strangers request these small average amounts. A stranger makes application for $275. It takes a moment or two to become acquainted, a moment or two to unfold the problem and the reason for the loan; it takes a moment or two to explain the terms and conditions upon which loans are made.

Assuming a favorable impression and a reasonable need for money, the borrower is asked to file a statement of his condition, together with a statement of the two co-makers, who are probably strangers to the bank, so that the bank may arrive at a basis for credit. Upon the completion of an application and its filing with the bank it takes a moment or two to check up moot points and to make sure that the borrower and the lender understand each other with respect to terms and payment.

This piece of three-name paper must be checked through a liability file to ascertain previous experience, if any, and unpaid balances in which one or all of the parties may be directly or contingently liable. Ten thousand loan applications require not 10,000 record cards and searches; they require in old or new transactions 30,000 entries.

These applications made ready for investigation will then require possibly 60,000 telephone calls, letters, or what not, in the confirmation of the statements and representations of the three parties and to find out their standing with others. There is no place where a credit investigator may call up and ask, "What is the market on Smith and Jones and Brown?" No, the credit investigator must with considerable ingenuity seek out the reliability and past performance in order to establish a basis for the credit—credit standing in the majority of cases of obscure persons.

No Infallible Guide

AN application is now ready for the judgment of a credit man. He has no rule of thumb, two for one ratio, no tangible collateral to fall back upon. He has nothing to fall back upon but the character and the income of the borrower and the two co-makers. He must appraise the character and standing of each individual—he must appraise it as against the combination of individuals. (About 85 per cent of applications considered are approved.)

We will pass up any detailed description of the normal repayment process. It is identical with the receipt, posting, and proving of savings accounts, and every banker can figure out just what it costs to handle these simple, though tedious operations. If the collecting part of the job worked out throughout this collection process as ideally as it is automatically set up, there would be little effort or expense to speak about from there on, but we must take into consideration the variety of types and conditions of men with whom we are dealing.

The overwhelming majority of American citizens mean business when they do business. Happily, the majority of accounts of personal lending institutions are of this class. They cause no anxiety and no cost not first reckoned upon.

There are others, however, quite as honest and well intentioned as the first class, who may be affected by circumstances beyond their control. This class may cause little anxiety, but frequent adjustments in their payment schedule. A third class, whose integrity cannot be questioned, are those people who follow the lines of least resistance or greatest attraction in ordering themselves around; their limits are their unlimited capacity to cave in under the slightest pressure. These people need reminding, and dunning, and prodding.

Those Who Bear Watching

THE fourth class requires unlimited tact and ingenuity and ceaseless effort. In this class you will find the fellow who lives on his wits, trying to keep up to or a little ahead of the Joneses; the foxy and the tricky; the unscrupulous and the worthless. By the very law of averages and human fallibility of judgment, a personal lending institution has contact with all four of these divisions of people as borrowers and co-makers.

It requires occasional reminders, telephone calls, or letters in approximately 20 per cent of the accounts handled, these notices and calls and letters being necessary not only with respect to the borrower but with respect to co-makers who must be kept informed, and who assume the role of helpful collecting agents, to save loss to themselves.

Ten per cent of all loans are constantly in a collection department where actions beyond the conventional and normal are necessary. If the time and effort of all other personal lending operations may be clocked and weighted, the time and effort and expense in the administration of a collection department is indeterminable. It is not possible to deal with any two accounts in the same fashion. It may take a dozen phone calls or letters to collect a $2 item. I have counted as many as 150 items of attention in the collection of a $100 loan. The process is akin to a marathon or an endurance contest. Suppose the efforts of the bank are unproductive after the long, tedious processes against makers and even co-makers. As a last resort legal action is required, and legal action on three-name paper of small denomination requires notices, service, judgment, garnishment, and execution, making legal action a triply expensive procedure.

I am sure that I need not further prove

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Part of the offices of the Central Hanover Bank & Trust Company, 70 Broadway, New York. Here Johns-Manville Sound-absorbing Materials reduce noise to an undisturbing level. Architects: Cross and Cross, New York. Equipment Specialist: E. F. Abell.

Profit Margin on Small Loans

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that time and motion, extensive filing equipment and a multiplicity of forms mean expense. Tact and ingenuity and judgment require men — technically trained men—and many men are required for this operation and men cost money.

One Cent Profit Per $1

THE cost per loan in a well managed representative personal loan company in 1929, exclusive of the cost for money, reserve for losses, taxes, and contingencies, was $8.81. The money cost was $4. The cost for service, therefore, was slightly over twice as much as that for money. And even though the losses are the wonder of its banking contemporaries, the resultant profit of the institution referred to in 1929 was just one cent on every dollar loaned.

If expense is an essential consideration in the conduct of any business, and if it is patent that the installment business by its very nature is more expensive than the average business, I submit that there is probably no organized business effort where one has to work so hard and do so much for the profit obtained than in the conduct of the personal loan business. Overhead expense and a small margin of profit are just as much a problem in making personal loans as in any business dependent upon volume and turnover.

The margin of profit in the conduct of the personal loan business is not in the mysterious calculation of the debatable actuarial turnover with respect to the rate charged, but in the ability to administer the business in the face of its inordinate detail, and the care, thought, and painstaking ability to deal with the factors of expense involved.

Another important limitation of the personal loan is the limitation of the personal loan with respect to consumer credit and the possibilities of parallel exploitation. Installment selling is well understood, but often we hear of personal loans as a phase of consumer credit which it is, but from which it might be inferred that personal loans and consumer credit are one and the same thing.

The retailer of washing machines is primarily interested in having people order them. Arrangement for payment is made later. The seller's interest in the washing machine is in the merchandise, because it is in the merchandise that the profit lies. The seller's interest in the time-payment device is an interest in the technique of having the goods paid for. An interest in the individual, while of course important, is the interest in the probability of whether the person can pay, and eventually that he does pay. If the purchaser does not complete payment, the washing machine is repossessed, resold, and the profit reversed.

The important point is that the interest of the purveyor of consumer credit is primarily in the goods, because it is in the goods that the profit lies.

Reasons for Loans

PERSONAL loans are made for every reason under the sun. There may be a decision to soak the family fortunes, and with the borrowed money initiate, extend, or expand a small business. Here, the wisdom of the move is of prime importance. Maybe it will be convenient for a family of good standing to use its personal bank credit rather than to ride its name too far and too wide with respect to creditors. Here the propriety of borrowing is the essence of consideration. The mass of personal loans are made for emergency, an emergency mighty closely approaching necessity; past due rent, hospital bills, maybe too many installments, the odds and ends which throw the family financial scheme out of joint. These reasons have to do with balance and equilibrium itself, the balance and equilibrium of the individual family in the specific loan involved.

In not one of these transactions are goods involved so far as the lender is concerned. He has no profit interest in the proceeds of the loan. There will be a profit in the transaction if everything turns out all right, but everything will turn out all right only so far as the lender has competently and wisely taken the role as father confessor, doctor, lawyer architect, as well as lender.

The interest of the purveyor of consumer credit is primarily in the goods. The interest of the lender in a personal loan transaction is first, last, and always an interest in the well-being of the individual.

This leads me to say that while it may be argued that a continued or even greater exploitation of the installment plan of selling for the sake of creating buyers may be sound, too saturated an exploitation of the personal loan is predicated upon the creation of borrowers and the eventual creation of a permanent debtor class in a community, which would produce a great social and economic harm.

There are already in the principal cities adequate facilities to loan the man of moderate circumstances about all that he requires. If there should follow rapid entry into the personal loan field, competition will regulate the exodus in the same fashion that competition caused a marked decrease in the number of installment financing companies after its initial over-expansion.

Permanent Debtors

ANOTHER important limitation is a consideration of the tendency of people to stay in debt. If it is axiomatic that a good commercial borrower should be out of his bank at least once a year, and if it is arguable that it is good business for a merchant to have a continuous credit account with his customers, just where should the personal loan take its place in the credit structure from the standpoint of continuity and permanency?

I have in mind an experience of the bank which I represent—an inquiry to find out to what extent borrowers were using our own bank to refund balances with our own bank. In column 1 given below is indicated the total co-maker business. Column 2 shows this business taken as 100 per cent in each year. Column 3 represents what we call prematurity loans—new loans made to borrowers before they are out of the bank. Column 4 represents the percentage of balances absorbed or refinanced against the total co-maker loans made.

Year	(1) Total Co-maker Loans	(2) Per Cent	(3) Per Cent Prema-turity	(4) Per Cent Carried Over
1925	$5,337,800	100	23.68	5.52
1926	7,047,800	100	25.19	6.44
1927	8,437,100	100	28.01	7.62
1928	9,942,600	100	30.03	8.79
1929	11,689,700	100	33.40	9.40
1930 (6 mo.)	6,296,000	100	34.58	10.57

It will be observed that in 1925, 23.68 per cent of our volume was done with customers who when the loans were made owed the bank 5.52 per cent of all co-maker business. And as we observe the figures of the other years, it will be noticed that on the basis of our operation in 1930 the percentage of old borrowers who even practically refinanced old balances had increased from 23.68 per cent in 1925 to 34.58 per cent in 1930, and the amount of carry-over (the unpaid balances refinanced) practically doubled from 5.52 per cent in 1925 to 10.57 per cent in 1930.

Constructive Purpose

I REGARD these figures with extreme pride, because this result represents an almost sleepless struggle on the part of our institution to keep before its customers the conception that bank loans are not permanent capital—they must be paid up. Repeatedly our advertisements carry lines something like this: "This bank was not organized and does not exist to create borrowers, to manufacture out of the Chicago public mere creatures of debt. This bank gives no encouragement to the chronic borrower. We could do little for him if we tried. This bank hopes that the loans which it makes are the means of getting the borrowers 'out and ahead' and do not serve to keep

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The End of the Depression

By LEONARD P. AYRES
Vice-President, Cleveland Trust Company, Cleveland, Ohio

In Last Seven Major Business Slumps the Movement Required an Average of Thirteen Months to Reach Bottom. Historical Precedent Indicates an Upturn Due. Increased Momentum Expected Early in 1931 and "Normal" Activity by Year's End.

I SUPPOSE if we were to attempt to define business depression we could do it best by saying that, "It is a time when many people who want to work cannot find the opportunity to work." I take it, too, that should we continue that line of thought, relating it to the problems that we are discussing here this afternoon, we should at once come to the conclusion that it is precisely in such a period that the problem of savings is of more importance than it is at any other general time.

When Savings Count

I SAY "general time" because I mean that I suppose it is true that for the typical individual who has a savings account there are two kinds of times when that account becomes, for him, a matter of foremost interest in his thinking. One is upon the occasion of sickness, as has been suggested here; the other is when the general calamity of the business depression comes, not to the individual and the family in isolated groups, but to society as a whole.

Unfortunately, business depressions are not new in America, nor have they been rare. In the fifty-two years that have elapsed since this country went back on a gold basis for its money, following the Civil War in 1879, we have had in this country fifteen business depressions, including this one. If we measure the duration and the severity of these business depressions as accurately as we may, we shall find that seven among the fifteen were smaller and less serious than this depression, and that the other seven were more serious than this one has proved to be so far.

However, recovery from this depression is not yet under way, so we do not know how it will rank in that longer period of bad times when we can look at it in retrospect, later, and statistically measure it. We do know already that this depression is of sufficient importance in that long parade of hard times in the past century that we must rate it among the major rather than the minor depressions.

Sometimes it seems to me that business depressions in their economic field have a certain resemblance to cancer in the field of medicine. Both are serious calamities, both matters to which a very great deal of attention has been given and to which study is being devoted; both subjects on which there is really a large amount of literature, of books and periodicals in many languages; both calamities about which we know a great deal and both problems of such a curiously difficult and involved sort that we do not know their cause. That is, we do not really know the cause of cancer; we do not really know, or agree, on what causes business depression. Yet we know a great deal about business cycles and business depressions.

Sixteen years ago a brilliant young economist in the University of California, named Wesley Clair Mitchell, wrote a book about these swings of business that carry the cycles periodically from periods of depression on up to recovery, still higher to times of prosperity, down the other side of the slope in decline, and still further down to depression. He called that book, "Business Cycles." That was the first time that that term had been used. That was relatively recent, just at the time of the outbreak of the great war.

Not Yet Obsolete

THAT work has become a classic on that subject. It has been translated into almost all languages and the term "Business Cycle" has become commonly used in all industrial countries. At least it is commonly used now. Last year many people thought it had become obsolete, but now it has come back into our vocabulary.

Since Mitchell's great work appeared the literature upon the general subject of business cycles and business depressions has been vastly multiplied. We have come to realize that these swings of business have been going on not only here, but everywhere else in industrial countries ever since modern industry came into being. People speak of the Biblical seven fat years and seven lean years as being the then phases of the business cycle. Probably they are wrong. The business cycle does seem to be something that is connected with the modern industrial system and the modern money economy.

We have come to realize, through studies that economists and business statisticians have carried forward, that not merely is there a somewhat regular and recurring series of phases in business activity that go by those four names of recovery, prosperity, decline and depression that I mentioned, but that these typically and generally are accompanied on the part of the populations, where the changes are taking place, by fairly closely corresponding general changes in business sentiment. That is not only business sentiment, but it is the whole activating psychology of the people.

First Comes Hope

WHEN business which has been bad has started to get better and then to get good, in a period of recovery, the universal frame of mind of the people, where that change is going on, is one of hope. They hope that it is going to go on that way. They hope that it is going to go on until prosperity comes. Really, that is what prosperity means. It comes from the Latin *prosperari*, the thing we hope for. Prosperity is *prosperari*, the thing that we hope for. The period that leads toward it is a period of hope.

Finally, when we do get to such a stage of general well being and we say that prosperity is here, then that hope ripens into a general feeling of confidence and for a time all business is imbued with that feeling of confidence that at last we have things back where they ought to be and now we can go forward as we had hoped we might.

But confidence, finally carrying along until business aspirations and ambitions become somewhat overreaching, finally leads to a time when competition begins to cut down profits. Confidence begins to give way to doubt. When we have doubt then we have business decline. We have security decline because the

one essential ingredient of a bull market is confidence. There cannot be one in a time of doubt. Doubt accompanies decline, down the other side of the cycle, until finally it gets down to a period so low that it stops, perhaps actually falling further, and we say, "This is depression."

Finally Comes Fear

WHEN depression has run awhile, we see happening those things that we have seen recently. First, typically and invariably, serious declines in the prices of commodities. Then rather late along in that series of declines sudden and bad declines in the prices of agricultural commodities. Then a complete demoralization of peoples thinking about economic matters and a wave of fear. That is where we are now.

When those things happen, all men may know that that period of depression is working toward its end, because those are the sigmata of the latter part of the period of depression. It has happened again and again and again with a regularity that is astonishing.

So we may say with fair confidence that as we pass through these phases of the business cycles we shall expect to go recurringly through four kinds of business and four sorts of general popular psychology: recovery, accompanied by hope; prosperity, when the general atmosphere is that of confidence; decline, when people are in doubt; depression, when the psychology is one of fear.

Always and everywhere, and in whatever circumstances, when we have been afraid of something for a rather long time and the worst that we have feared did not happen—and it seldom does happen—then we begin to be hopeful once more. Men are built that way. So we find hope once more beginning to tinge and then to permeate the public mind. Then we know that that depression is at its end and that recovery is getting under way.

Either Torrid or Frigid

LAST year in the summer our board of education in Cleveland held examinations toward the end of the summer for the children who had entered the city after the schools had closed the previous June to find what grades they ought to go into when the schools opened again in the autumn.

There was one small boy who took, on two successive days, written examinations in grammar and in geography, and he got the subjects somewhat mixed in his mind. One of the questions in the geography examination was, "Name the zones."

This youngster wrote, "There are two zones: masculine and feminine. The masculine is either temperate or intemperate; the feminine is either frigid or torrid."

That is a very good description of the business cycle, four phases in all. The one thing that one can be sure about, if he is engaged in the perilous occupation of prophesying or forecasting about business, is that however things are just now they are not going to be that way very long. They are going to change. They are going to change through some phase of one of these larger phases of the business cycle. It may be delayed as our prosperity was delayed in changing for a long time in these past few years. But as far as we can see now, the change comes invariably, almost inexorably, despite new conditions, when we think they will prevent it from coming and in a way that puzzles profoundly all who try to seek out the answers to the secrets of those curious shifts.

Forty Months Average

ON the average, a great many years past the business cycle, if you measure it from peak to peak of prosperity, from valley to valley of depression, has been a cycle of forty months, six three and one-third year periods, of which two years have been on the way up to the peak and a year and a third on the way down. I say that is so on the average.

However, it does not occur with any such regularity that we can place our marks ahead on the calendar and say that at such and such a time there will be prosperity and in another time there will be depression. It is not like that. These swings of business are clearly swings varying in length, irregular in intensity, irregularly spaced. But, on the average they have been, during quite a long term of years, periods of time of three and a third years, as measured from peak to peak, as I said, or from bottom to bottom.

There was a time when people who studied these things thought that depressions usually came ten years apart. We had one in 1847, in this country, for example. Then we had a bad one in 1857. We had a slight one in 1867. We were in a bad one in 1877. Then came along other students who said, "No, if you count the minor ones as well as the major ones these things seem to happen not so much in ten years as in seven years."

There was a bad one in 1907, another in 1914, and another in 1921, then a little one in 1928, which were seven years apart. Probably those decennial or seven-year periods impress themselves on men's minds because it so happened that certain bad ones that men remembered came with spacings about like that.

Theories Dovetail

PROBABLY it is more nearly true that in the latter decades, at least, the generality of rule has been this one that I have spoken of, of about three and a third years. It is to be noted that three such cycles would make one of ten years, and that two of them would make one of approximately seven years, so that all three theories, after all, fit together fairly well.

This particular depression is one which is the culmination of a business decline that got under way last year. Probably the peak of business in the last year was in July, or possibly in June. Then began a decline accelerating in its intensity, which kept on running down until it reached the low level where things are now, a period of some fourteen months. It followed a long period of prosperity briefly interrupted by two little depressed periods.

This particular business cycle began at the end of 1927 and in 1928, and in the first half of 1929 we were in the advancing phases of it. We went up for some nineteen months and we have been going down for some fourteen months. With only brief interruptions this long cycle that we have brought to an end abruptly and violently now, has lasted since the great depression of 1921. We had a depression in 1924, a little one in 1927, and now we have this bigger one.

The Little Depressions

I HAVE spoken about the difference between the minor depressions and the major depressions. I suppose most persons scarcely remember that there was a depression in 1927. It was short. It was not very deep. It did not do much harm. Probably it was mainly caused by the shutting down of the great Ford plants, which at that time constituted half of the automobile industry of the world.

Most persons, I suppose, are not keenly aware that there was a depression in 1924; but there was. It would have been serious had it lasted, but it was brief. All well remember that there was a depression in 1921, not because it was so deep, but because it was so long and deep. So we may divide depressions in general into two sorts: the minor ones and the major ones. This is a major one; 1927 and 1924 were minor ones.

If we construct a line, statistically, representing in a contour the ups and downs of general business activity, crawling to levels well above the theoretical normal level in times of prosperity, falling somewhat suddenly to levels well below it in periods of depression—we shall see not merely that

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The End of the Depression

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these periods of depression are some of them minor and some of them major, but we shall see that there is a difference in their shape.

V and U Depressions

A MINOR depression is usually one in which the line of business goes down steeply and comes up steeply and makes a V. They do not do very much harm because they do not stay very long.

Depressions, even profound depressions, do not do injury to business or to family welfare unless they last. In point of fact, we do have a very serious business depression in this country every Sunday. Almost everything stops in a business way, but they do not do harm because we are accustomed to them and we have found out how to adjust ourselves to them.

The other depressions that are the major ones are not shaped like a V, but U shaped with a long, flat bottom. This one is remarkable even among U shaped depressions. Business started down, as I said, a year ago in the summer time, perhaps in July, and ran down with increasing rapidity until it finally made a drop to what seemed then a very low point when the collapse of our stock market speculative era came in November. With that November level general business, statistically measured, began to move along sideways, a little up this month and a little down the next month, until it had done so for some seven months.

Then Came the Drought

THAT was in the early summer. I began to say that the floor of this depression was about as long as any floor that we had had, and so we ought pretty soon to see an upturn. Then came the drought in this country.

Almost simultaneously there came new and unexpected and very drastic collapses in commodity prices in countries abroad. Our depression is measured by our line of general business. It had been moving sideways on the irregular floor for more than a half year, and it left that floor and bored a hole right through it into the sub-cellar, until it was almost twice as far down, farther than it had been before, and now it is making a new floor on a new level.

Statistically, it is unique among depressions because it was not satisfied with its first resting place, but has gone down to a new and very definitely lower place. We had thought generally that that kind of thing did not happen in the natural history of business depressions.

So far I have been discussing cycles. The topic in the program is "Savings and Cycles." I have not touched on savings. I shall not discuss savings very much because when I began to look things over to see what I should say, I found more definitely than I had previously found—because this time I was really looking into my inventory—that I did not know much about savings. I find that I do not know much about them after a considerable study of them.

Statistically, they are very difficult to study. That is true mainly for reasons with which bankers are fully well acquainted, because if one goes into statistical compilations of bankers' cards, as ordinarily available, he will find plenty of figures over adequately long periods of time, about time deposits. Sometimes they are even labeled in those compilations as savings deposits.

What Are Savings?

BUT, even though he does not know very much about banking he will soon realize that he is dealing there, not with what properly should be called savings, but with a mixture of general and genuine savings and of idle corporate funds put in savings accounts for temporary nourishment, while they are not in use by the corporation.

So, commonly, when one of these periods of depression comes, we have two tendencies offsetting one another: a drawing down of real savings deposits to meet emergencies, or other reasons; a building up of pseudo-savings deposits put in there by corporations offsetting one another so that one cannot very well tell which he is really talking about.

It has been true, over that long period of more than half a century, that there have been declines in savings in all of the major business depressions. Moreover, it is most interesting to note that generally the American people do not draw down their money and replenish their money in savings accounts concomitantly with the movement of the business cycle, but on a plan of procedure that if diagramed would make quite a different sort of curve. Perhaps it would not be going too far to make a general statement of that sort. What we do, apparently, in America when a depression arises, which always arises suddenly, is to draw money out of the savings accounts and pay bills. Then as people together we begin with all our strength and energy to save money despite the fact that employment is harder to get and wages less ample.

The decline in savings runs down abruptly at the early part of a period of depression. It recovers promptly, it goes up to a high point long before business has gotten really good again. It starts gently to decline as prosperity goes on progressively augmenting. When we are feeling really prosperous we clearly do not save in proportion to that prosperity.

While the Sun Shines

IN the beginning of recovery, when it is once more possible to save money we, as a people, save it with all of our energy. Looking through some of the old numbers of the *Financial Chronicle*, in connection with some work that I did recently in the study of business cycles, I read an article on the business depression of 1884, almost a half century ago. The editor said there, after commenting on what were then bad business depressions of recent economic history in this country—he made this comment which stayed in my mind, "In America, in times of prosperity we make our debts; in times of depression we pay our debts and then we start again."

I think he was right. I think it was an epitome of the economic habits of the typical American. I think that that is shown in the study of these savings figures, brief and inadequate as they are. I mean that is so as compared to what we should like to have.

Clearly it is true that when business is going very well indeed, sanguine people that we are we get to thinking as we were thinking last year, that that was our permanent national destiny and that things would go on that way. Therefore, the incentive to save becomes less compelling and the proportion, or degree, of saving slows down. Then descends upon us the calamity of business depression.

Apparently, what the typical American family does then is to hurry out and pay the outstanding bills that perhaps could not be paid later on. Then the American family begins to restrict purchasing, do with fewer luxuries, sometimes curtails the things that we call necessities, but to save. The savings grow with rapidity that is clearly reflected in these figures. Then once more they take those off in degree long before the conditions of business make it necessary that they should.

A Typical Depression

THIS cycle is clearly typically characteristic—or rather this depression is clearly typically characteristic of the major business depressions in this country in that it is an international depression. A study of our records all the

(*Continued on page* 399)

before you Subscribe Service for 1931 . . .

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Individual volumes may be bought separately at $30.00 each. Subscriptions for the 1931 edition are now being taken. Because the greater part of each edition is sold in advance, we suggest that you enter your subscription for the 1931 Manuals now. Deliveries will be made strictly in the order in which reservations are received. We shall be glad to furnish additional information. Address inquiries to

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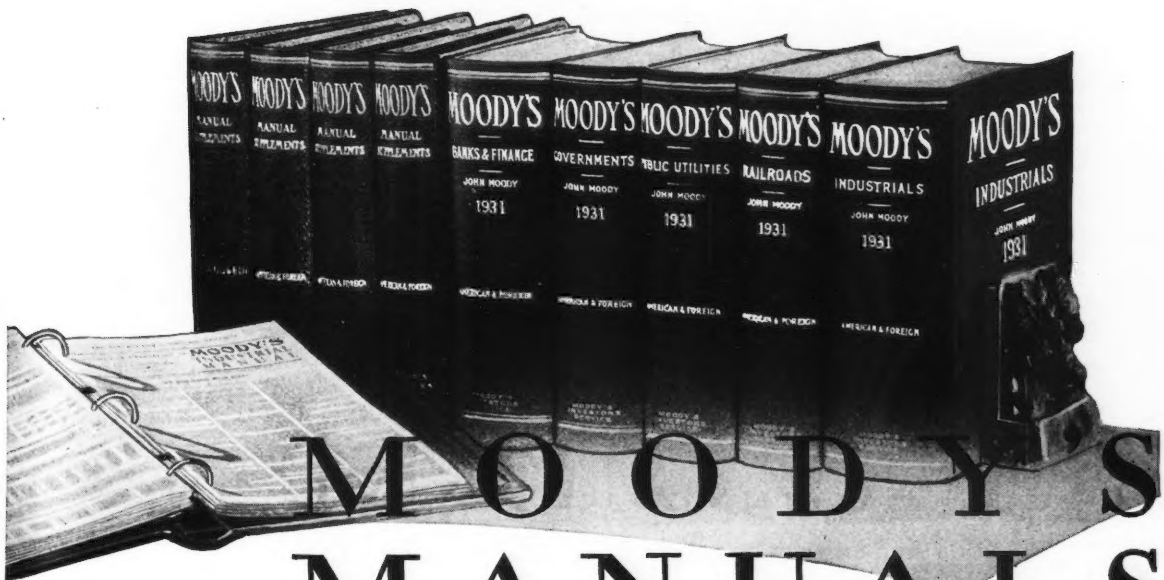

MOODY'S MANUALS

For 1931

The State Secretaries Section

Varied Program Included Comprehensive Committee Reports Based on Long Study. Progress Is Described in Establishing Credit Bureaus and Clearinghouse Associations. Greater Cooperation Is Urged With the American Institute of Banking.

THE State Secretaries Section held its annual meeting in Cleveland, September 30, with President M. A. Graettinger in the chair. The session heard reports from committees dealing with a wide range of banking problems, including improved bank practices, credit bureaus and clearinghouse associations, cooperation with the American Institute of Banking, county organizations, insurance, protection, public education and taxes.

Mr. Graettinger said that the Section had established itself as a fact-finding body and that the results of study by various committees were presented for the benefit of members of the Section and their respective associations and for all members of the American Bankers Association.

Officers Elected

MR. H. G. HUDDLESTON of Tennessee was elected President of the Section for the coming year. Paul P. Brown of North Carolina was chosen First Vice-President and W. G. Coapman of Wisconsin, Second Vice-President. The new board of control elected at this meeting includes H. G. Huddleston of Tennessee, Paul P. Brown of North Carolina, W. G. Coapman of Wisconsin, Mrs. Margaret F. Barnes of New Mexico and past President Graettinger, ex-officio.

Nine brief addresses on current banking topics were the main part of the program. Paul P. Brown spoke on "Banking's Greatest Asset," trained and intelligent bankers. He praised the work of the American Institute of Banking and said that answers to a recent questionnaire indicated satisfactory cooperation between the secretaries in various states and the Institute.

"Thousands of young men and women," he said, "throughout the United States are studying Institute courses and hundreds are annually receiving standard certificates. These are the future officers of our banking institutions and will also be soon the leaders in Association activities. The secretaries who make these things possible by cooperating with the Institute are building for themselves an army of loyal supporters who are ever ready to support each movement for the benefit of the banks of the state."

H. G. Huddleston

Secretary, Tennessee Bankers Association, Nashville, Tenn. Incoming President, State Secretaries Section, American Bankers Association

Mr. Graettinger, discussing the work of the Section, said:

"It forms the only natural, major connecting link and its members the only actual contact between the American Bankers Association and the various bankers' associations within the states. Its members have recognized this relationship and opportunity for helpfulness, and while these facilities for dissemination of banking propaganda and publicity among the member banks are available to the Executive Staff, the commissions and committees of the American Bankers Association, they do not appear to have been made use of to the extent possible. It must be conceded that the secretary in each state is in close touch with the members in his territory and cognizant of their problems."

Aiding the A. I. B.

MR. BEN ALEY, President of the American Institute of Banking, who followed Mr. Brown, spoke on "Increasing That Asset." He described the steady growth in number of Institute chapters and outlined a program designed to make the senior bankers of the country more aware of the Institute's benefits.

Miss Forba McDaniel, of Indiana, chairman of the committee on county organizations, said that the time had passed when bankers could be rivals. They should compete, she said, but do so cooperatively. As a means of furthering the idea of working together she summarized the committee's recommendations as follows:

(a) Hold county meetings regularly.
(b) County federation contests.
(c) Contact with state association office.
(d) Attendance of state officers at county meetings.
(e) Annual conference of county officers.
(f) Inform bankers that the only way banks can profit by state associations' recommendations is by local cooperation.
(g) Suggestions for better management looking toward increased profits is most effective incentive.

Mr. Wall G. Coapman, of Wisconsin, chairman of the committee on credit bureaus and clearinghouse associations, described progress since the 1929 Convention in the organization of city and county bureaus. He said:

"The weakness of county associations, and others similar lies in the lack of power to enforce regulations. Well-meant and commendable attempts to introduce proper methods often completely break down because of lack of any au-

(*Continued on page 368*)

Resolutions of 56th Convention

MAX B. NAHM, vice-president of the Citizens National Bank, Bowling Green, Ky., and chairman of the Resolutions Committee of the 56th Convention of the American Bankers Association, submitted the following resolutions to the general session of the convention in Cleveland and they were adopted:

General Conditions

THE members of the American Bankers Association realize that as the chief custodian of the nation's financial structure it behooves them to consider most carefully at this time the situation of the country. To this end they desire to call particular attention to certain matters.

In the opinion of the American Bankers Association the business depression in this country is merely part of a world-wide situation due largely to the sharp decline in the price level of raw commodities. This decline is a phenomenon which has followed in the wake of most great wars, and is part of the process of readjustment needed to restore the equilibrium which was upset by the forced production necessitated in all countries to carry on the war. There are evidences that the present depression has about run its course. Judged by historic precedents, we have now reached low ebb and with the resumption of construction very gradual but definite improvement may be expected.

On the other hand, the country is to be congratulated that the banking and credit situation continues fundamentally sound. The growth of investments and loans of banks resulting from the large influx of gold into this country since the war is unavoidable. It is useless to expect banks to liquidate bank credit when they themselves have little or no indebtedness. The banks must have earnings and as they cannot lend in sufficient amounts to commercial borrowers the tendency is to buy bonds and to make loans on securities.

Branch Banking

THE American system of unit banking, as contrasted with the banking systems of other countries, has been peculiarly adapted to the highly diversified community life of the United States. The future demands the continued growth and service of the unit bank in areas economically able to support sound, independent banking of this type, especially as a protection against undue centralization of banking power. Modern transportation and other economic changes, both in large centers and country districts, make necessary some readjustment of banking facilities.

In view of these facts this Association, while reaffirming its belief in the unit bank, recognizes that a modification of its former resolutions condemning branch banking in any form is advisable. The Association believes in the economic desirability of community-wide branch banking in metropolitan areas and county-wide branch banking in rural districts where economically justified.

The Association supports in every respect the autonomy of the laws of the separate states in respect to banking. No class of banks in the several states should enjoy greater rights in respect to the establishment of branches than banks chartered under the state laws.

Doles

IN times of business depression, when unemployment increases largely, attempts are apt to be made to relieve the situation by measures which do more harm than good. A number of other countries have sought to meet present conditions by a system of government doles. It is to be hoped that this system will not be introduced into this country. Paying men for doing nothing accelerates depressions, prolongs them and tends to retard progress by creating a disturbing mental atmosphere. The Association commends the attitude of American labor toward this question. It believes that the ultimate solution of the problem is to be found in a system of private insurance which will not degenerate into a dole system to meet political exigencies.

The Bank for International Settlements

MORE and more the world is becoming an economic whole, and any instrument which facilitates and makes more easy the commercial and financial intercourse of nations is to be welcomed. The members of the Association, therefore, approve the creation of the Bank for International Settlements designed to remove friction in the handling of the reparations payments and to make it easier for the financial leaders of the various countries interested to meet and become acquainted with each other's needs. The Association realizes that public opinion in this country is still opposed to active participation on the part of this government in the settlements growing out of the Treaty of Versailles. It is glad, however, that it was possible for bankers of this country to lend their aid in the organization of the Bank for International Settlements and in the carrying out of its policies. It expresses the hope that the Bank for International Settlements will develop more and more into an instrument making for the orderly management of international financial transactions and thus aiding in the maintenance of peace among nations.

Thanks

THANKS are due to President Lonsdale for the time and energy which he has devoted to the affairs of the Association. His administration has come at a time which has tried the skill and intelligence of the banking community of this country. He has presented at all times with dignity and intelligence the point of view of the members of this Association in his numerous contacts with the business world at large.

This Association extends its thanks also to the bankers, hotels, press, ladies and general public of the city of Cleveland for the manifold kindnesses and the abundant hospitality extended to the delegates and the members of their families.

The Association is indebted to the President of the United States for his willingness to give the time to deliver an address to the Association. It is the first time the Association has been thus honored. The Association wishes also to express its thanks to the other speakers in the various sessions of the Convention, Divisions and Sections; they have done much to make this Convention of the American Bankers Association a success.

Taxation

THE Association endorses the work of the Special Committee on Section 5219 and calls attention to the following special resolution prepared by that committee and forming a part of these resolutions:

Whereas, this Association is again confronted with the problem of protecting national banks and their shares of stock from discriminatory taxation; and

Whereas, the protection of national banks from discriminatory taxation inures in large measure to the benefit of state banks and the scope of such protection, therefore, is of grave concern to all banking institutions; and

Whereas, national banks are and have been, since 1863, agencies of the Federal Government and are now clothed with

(*Continued on page* 394)

Recession Affects School Savings

THE total amount of money deposited in school savings accounts during the year ending June 30, 1930, was almost $500,000 greater than during the previous year. Moreover there were registered the largest number of schools and the largest number of children participating since the system was inaugurated. But here the record of growth stops. The net savings from the year's deposits were $7,690,529.68, or $2,849,398.78 less than the net savings at the close of school a year before.

During the current year unemployment has been so widespread that parents probably found it necessary to dip into the savings of their children. Many of the banks forwarding statements on school savings explained the drop by the amount of unemployment in their respective areas.

WILLIAM L. STODDARD, executive vice-president of the Council on Economic Education in Boston, in a recent address said:

"The reserve buying power of the American people has been a life saver in the present business recession. But our reserves for buying are not what they should be and in times of high earnings and full employment our spending is not under good control. In spite of the fact that we save, that we buy life insurance as no other nation does, that we are an unusually intelligent people, careless spending and management of personal money resources is an American habit.

"The public schools are beginning to appreciate that they have a responsibility in the forming of sound habits as to the uses of money. Nothing can more surely stabilize business than to

(*Continued on page* 391)

SUMMARY AND COMPARISON

1928-1929 and 1929-1930

	Number of Schools		Number Participating		Deposits		Net Savings	
	1928–29	1929–30	1928–29	1929–30	1928–29	1929–30	1928–29	1929–30
UNITED STATES	14,254½	14,610½	4,222,935	4,597,731	$28,672,496.00	$29,113,063.48	$10,539,928.46	$7,690,529.68
ALABAMA	73	73	37,726	39,129	190,095.07	178,050.87	86,018.47	73,800.84
ARIZONA	30	26	11,056	12,265	62,610.14	59,274.18	41,443.63	26,332.68
ARKANSAS	7	7	2,124	2,129	8,976.62	9,756.37	474.31	520.19
CALIFORNIA	2,463	2,488	382,460	416,990	1,761,277.56	1,278,268.20	976,632.11	672,402.62
COLORADO	28	3	578	590	13,206.60	1,434.57	7,223.63†	....
CONNECTICUT	705	530	126,896	123,601	1,032,170.94	1,034,138.38	472,308.25	253,993.58
DELAWARE	63	58	31,694	33,755	216,645.33	216,404.50	10,583.16	13,466.78
DISTRICT OF COLUMBIA	50	49	5,538	5,978	50,409.30	44,709.02	50,409.30	44,709.02
FLORIDA	35	29	17,335	8,130	80,452.19	64,472.42	1,405.32	11,370.71
GEORGIA	98	104	53,534	57,835	185,962.36	187,905.98	39,352.48	31,609.64
HAWAII	36	97	....	2,059	11,768.80	24,906.28	11,768.80	24,789.14
IDAHO	11	36	....	8,126	5,365.89	34,668.26	5,365.89	21,388.29
ILLINOIS	513	521	138,979	147,109	1,977,470.94	1,282,845.08	935,817.78	111,765.76
INDIANA	287	273	81,204	99,322	704,824.74	660,382.81	172,320.00	66,767.46
IOWA	203	513	66,991	62,973	444,227.80	418,248.42	72,508.51	51,202.21
KANSAS	78	79	34,905	38,916	222,404.52	205,851.60	52,957.82	22,676.70
KENTUCKY	55	60	9,433	10,695	57,793.91	54,675.37	12,187.15	5,169.38
LOUISIANA	16	16	1,319	1,686	14,451.16	14,485.52	5,733.07	2,974.26
MAINE	374	338	30,075	38,627	150,014.00	173,269.19	92,977.06	89,070.60
MARYLAND	120	106	60,531	46,148	299,144.56	367,659.40	169,472.84	31,054.83
MASSACHUSETTS	1,130	1,224	217,337	250,047	1,479,423.54	1,440,521.33	809,034.92	585,993.73
MICHIGAN	452	465	148,125	149,642	959,243.44	895,754.00	244,513.44	108,576.59
MINNESOTA	545	430	155,275	159,547	699,360.75	773,288.28	324,232.23	209,773.85
MISSISSIPPI	8	2	2,491	905	11,593.82	11,044.13	3,617.37	1,333.59
MISSOURI	141	203	8,474	42,996	379,504.11	536,097.30	75,410.77	216,982.02
MONTANA	8	.....	3,264	....	29,655.18	....	29,655.18	....
NEBRASKA	51	50	28,083	40,638	209,614.27	249,788.00	41,177.81	53,000.00
NEVADA	2	2	104	300	496.54	355.78	168.77	13.73
NEW HAMPSHIRE	91	97	5,588	8,018	27,465.55	41,948.45	17,387.23	17,526.56
NEW JERSEY	747	811	228,855	270,576	2,094,937.23	2,159,443.08	693,070.09	382,901.30
NEW MEXICO	.....	10	....	2,947	....	16,532.21	....	12,259.26
NEW YORK	1,315½	1,464½	878,400	970,226	4,841,605.19	5,217,804.25	2,917,011.85	2,836,149.48
NORTH CAROLINA	70	66	28,861	13,719	95,383.77	88,904.78	33,963.50	10,953.28
NORTH DAKOTA	.....	16	....	633	....	1,913.97	....	1,229.84
OHIO	816	728	321,529	290,595	1,997,634.52	1,937,729.50	502,324.61	209,926.44
OKLAHOMA	69	65	24,063	16,302	121,062.02	225,917.49	107,415.82	227,020.57
OREGON	121	137	67,117	57,639	359,708.21	404,359.23	99,907.06	95,297.13
PENNSYLVANIA	2,054	1,876	550,002	738,186	4,313,716.43	4,832,618.56	817,034.11	640,677.02
RHODE ISLAND	328	344	106,886	111,762	995,271.11	1,031,258.98	75,061.99	1,774.08
SOUTH DAKOTA	57	56	12,181	11,348	108,185.76	113,816.95	37,838.90	27,020.02
TENNESSEE	69	36	31,925	21,188	194,450.76	160,129.21	26,032.14	9,321.93
TEXAS	125	188	38,461	76,482	260,451.07	367,199.64	159,629.77	166,866.89
UTAH	18	37	8,350	12,008	29,644.87	43,893.53	12,100.94	12,868.77
VERMONT	31	29	4,213	4,407	900,959.94	7,880.21	8,692.04	4,422.52
VIRGINIA	89	85	34,024	31,818	210,231.42	221,632.09	137,493.33	20,751.87
WASHINGTON	262	312	123,080	130,661	909,833.70	1,119,372.66	109,551.03	194,267.52
WEST VIRGINIA	92	145	19,587	29,484	110,485.72	162,087.26	28,729.60	22,581.17
WISCONSIN	317	324	83,788	81,097	731,204.65	738,247.09	125,562.64	63,855.73
WYOMING	1	2	395	....	1,000.00	2,120.10	800.00	2,120.10

TOTALS—UNITED STATES	Number of Schools	Number Participating	Deposits	Net Savings
1929–1930	14,610½	4,597,731	$29,113,063.48	$7,690,529.68
1928–1929	14,254½	4,222,935	28,672,496.00	10,539,928.46
1927–1928	13,835	3,980,237	26,005,138.04	9,476,391.32
1926–1927	12,678	3,742,551	23,703,436.80	9,464,178.93
1925–1926	11,371	3,403,746	20,469,960.88	8,770,731.05
1924–1925	10,163	2,869,497	16,961,560.72	7,779,992.55
1923–1924	9,080	2,236,326	14,991,535.40	8,556,991.27
1922–1923	6,868	1,907,851	10,631,838.69	....
1921–1922	4,785	1,295,607	5,775,122.32	....
1920–1921	3,316	802,906	4,158,050.15	....
1919–1920	2,736	462,651	2,800,301.18	....

†Loss.

Committees and Commissions 1930—1931

THE following list includes the membership in the various Committees and Commissions (excepting those of Divisions and Sections) for the ensuing year, under the new administration; the membership of the Federal and State Legislative Councils; members-at-large of the Executive Council, and the vice-presidents for territories and in foreign countries:

Administrative Committee

Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend, Ind., chairman.

Ben Aley, vice-president, United States National Bank, Denver, Colo.

M. Plin Beebe, president, Bank of Ipswich, Ipswich, S. D.

Harry J. Haas, vice-president, First National Bank, Philadelphia, Pa.

H. G. Huddleston, secretary, Tennessee Bankers Association, Nashville, Tenn.

John G. Lonsdale, president, Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.

John McHugh, chairman, Executive Committee, The Chase National Bank, New York, N. Y.

Grant McPherrin, president, Central National Bank & Trust Co., Des Moines, Iowa.

Will F. Morrish, vice-president, Bank of America of California, San Francisco, Cal.

A. C. Robinson, president, Peoples-Pittsburgh Trust Co., Pittsburgh, Pa.

A. D. Simpson, vice-president, National Bank of Commerce, Houston, Tex.

Francis H. Sisson, vice-president, Guaranty Trust Company, New York, N. Y.

Gilbert T. Stephenson, vice-president, Equitable Trust Co., Wilmington, Del.

C. E. Tiffany, president, Fauquier National Bank, Warrenton, Va.

Edmund S. Wolfe, president, First National Bank & Trust Co., Bridgeport, Conn.

Bankruptcy Committee

M. R. Sturtevant, vice-president, First National Bank, St. Louis, Mo., chairman.

W. C. Gordon, president, Farmers Savings Bank, Marshall, Mo.

George H. Hamilton, vice-president Fourth National Bank, Wichita, Kan.

John C. Hicks, president, St. Johns National Bank, St. Johns, Mich.

Robert McEvilley, vice-president, First National Bank, Cincinnati, Ohio.

W. P. O'Neal, vice-president, Canal Bank & Trust Co., New Orleans, La.

Ralph Stone, Ch. of Bd., Detroit & Security Trust Co., Detroit, Mich.

G. H. Yates, vice-president, United States National Bank, Omaha, Neb.

Advisory member: Thomas B. Paton, general counsel, 110 East 42nd St., New York, N. Y.

Committee on Federal Legislation

E. W. Stout, president, Fletcher American National Bank, Indianapolis, Ind., chairman.

F. G. Addison, Jr., vice-president, Security Savings & Commercial Bank, Washington, D. C.

J. M. Appel, president, Highland Park State Bank, Highland Park, Ill.

John F. Daly, president, Hibernia Commercial & Savings Bank, Portland, Ore.

N. H. Dosker, vice-president, Louisville Trust Co., Louisville, Ky.

Dean H. Lightner, vice-president, First National Bank & Trust Co., Aberdeen, S. D.

EX-OFFICIO:

Chairman, Federal Legislation, National Bank Division: J. R. Cain, Jr., vice-president, Omaha National Bank, Omaha, Neb.

Chairman, Federal Legislation, Savings Banks Division: Howard Moran, vice-president, American Security & Trust Co., Washington, D. C.

Chairman, Federal Legislation, State Bank Division: James C. Bolton, president, Alexandria Bank & Trust Co., Alexandria, La.

Chairman, Federal Legislation, Trust Company Division: Edward J. Fox, president, Easton Trust Co., Easton, Pa.

Federal Legislative Council

E. W. Stout, president, Fletcher American National Bank, Indianapolis, Ind., chairman.

State Chairmen

Alabama—Clyde Hendrix, president, Tennessee Valley Bank, Decatur.

Arizona—A. T. Esgate, vice-president-secretary, The Valley Bank, Phoenix.

Arkansas—F. W. Niemeyer, president, Bankers Trust Co., Little Rock.

California—J. B. Chaffey, vice-president, California Bank, Los Angeles.

Colorado—Alonzo Petteys, cashier Farmers State Bank, Brush.

Connecticut—W. P. Calder, pres., Bristol American Bank & Tr. Co., Bristol.

Delaware—Henry Ridgely, president, Farmers Bank, Dover.

District of Columbia—F. G. Addison, Jr., vice-president, Security Savings & Commercial Bank, Washington.

Florida—R. J. Binnicker, president, First National Bank, Tampa.

Georgia—C. Holmes Sheldon, president, National Bank of Brunswick, Brunswick.

Idaho—O. M. Mackey, cashier, American Bank & Trust Co., Lewiston.

Illinois—J. M. Appel, president, Highland Park State Bank, Highland Park.

Indiana—E. W. Stout, president, Fletcher American National Bank, Indianapolis.

Iowa—C. E. Beman, vice-president, Mahaska County State Bank, Oskaloosa.

Kansas—W. A. Hayes, president, Farmers & Merchants State Bank, LaCrosse.

Kentucky—N. H. Dosker, vice-president, Louisville Trust Co., Louisville.

Louisiana—J. F. Flournoy, Jr., vice-president, Whitney Central National Bank, New Orleans.

Maine—H. F. Libby, cashier, Pittsfield National Bank, Pittsfield.

Maryland—William S. Gordy, cashier, Salisbury National Bank, Salisbury.

Massachusetts—Walter Tufts, president, Worcester County National Bank, Worcester.

Michigan—E. R. Morton, vice-president-cashier, City National Bank & Trust Co., Battle Creek.

Minnesota—R. B. Rathbun, assistant cashier, First National Bank, Minneapolis.

Mississippi—A. L. Jagoe, president, Iuka Guaranty Bank, Iuka.

Missouri—W. W. Pollock, president North Missouri Trust Co., Mexico.

Montana—E. H. Westbrook, president, Midland National Bank, Billings.

Nebraska—Woods Cones, president, Cones State Bank, Pierce.

Nevada—

New Hampshire—Harold P. Parker, cashier, Wilton National Bank, Wilton.

New Jersey—F. Morse Archer, president, First Camden National Bank & Trust Co., Camden.

New Mexico—E. M. Brickley, cashier, First National Bank, Carrizozo.

New York—George V. Drew, vice-president, The Chase National Bank, New York.

North Carolina—Millard F. Jones, vice-president-cashier, Planters National Bank & Trust Co., Rocky Mount.

North Dakota—E. J. Weiser, president, First National Bank & Trust Co., Fargo.

Ohio—Arthur B. Taylor, president, Lorain County Savings & Trust Co., Elyria.

Oklahoma—A. J. Martin, president, Okemah National Bank, Okemah.

Oregon—J. F. Daly, president, Hibernia Commercial & Savings Bank, Portland.

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Commercial Bank Competition for Savings

Mingling of Two Types of Business Has Altered Both Institutions. Committee Says Trend Will Continue Until All Are Dual Purpose Institutions. Movement Ascribed to the Need of Wider Fields and Catering to the Convenience of Patrons.

NINETY-SIX per cent of the commercial banks answering a questionnaire sent out by the Committee on Savings of the Savings Bank Division believed that the tendency of commercial banks to engage in savings banking, and conversely, would continue until few of the original one-purpose institutions remained. The committee, of which Howard Whipple, vice-president of the Bank of America of California, San Francisco, Calif., is chairman, reported as follows:

"In order to lay a proper foundation for the material to be submitted in this report, it may be well to recite that at one time the fields of both savings and commercial banks were much more clearly defined than is now the case. But now in the matter of savings, only in the North Atlantic States, where mutual savings banks still proudly uphold their traditions, do we find any number of banks which refuse to depart from the path of savings banking and savings banking alone.

"In the field of commercial banking, single purpose institutions are likewise becoming harder to find. While many large cities have one or more purely commercial banking institutions which make little or no effort to invade the field of investment deposit, in the greater number of instances this type of bank is becoming more and more of a *rara avis*. Both savings and commercial banks have taken on wider charter powers and entered the field of dual purpose banking. They have become veritable financial department stores with time and interest-bearing funds often furnishing the bulk of their support.

Two Reasons for Change

"THE departure has naturally brought increasing competition to both types of institutions and particularly to savings banks. Not only do commercial banks operate full-fledged savings departments but, in the interest they pay on demand deposits, they often sidetrack a large amount of time funds which ordinarily would gravitate into the coffers of some savings institution. Patently there are two principal reasons for this development: the desire of the banker to increase his profits through invasion of wider fields and the desire of the bank patron to do all his banking under one roof.

"To ascertain the nature of this development, to find out what these commercial or department store bankers are doing in the field of interest-bearing deposit activities and particularly to find out what they are thinking, questionnaires were dispatched to a limited number of leading commercial banks in 160 clearinghouse cities which maintain deposits of $20,000,000 or more. Figures for Dec. 31, 1929, were used.

"The 206 banks returning usable replies carry $3,933,000,000 of deposits of four different types. Of that total, $2,146,000,000 or 57 per cent are in ordinary checking accounts; $291,000,000 or 7 per cent are in special checking accounts. Time certificates of deposit account for $261,000,000 or 6 per cent of the total and savings deposits for $1,234,000,000 or 30 per cent. Divided into the two major classifications of demand and time funds, we find 64 per cent in demand and 36 per cent in time.

"As the banks approached were preponderantly commercial in character, the large percentage of time funds is significant. It would be much more so were a larger proportion of smaller banks included.

"Of the reporting banks 47 per cent pay interest on ordinary checking accounts and 53 per cent do not. Nine different rates were reported, varying from ½ of 1 per cent to a high of 3½ per cent. One bank alone reported a rate varying from ½ to 3 per cent. The most popular rate, however, is 2 per cent, paid by 70 per cent of the answering banks. Strangely, the second in popularity was 3 per cent, paid by 13 per cent of the banks while 10 per cent paid 2½ per cent.

"Because of the low rates paid, ordinary checking accounts may not be considered as highly competitive with savings institutions; but there are, no doubt, numerous instances where depositors are lured into leaving time funds in checking accounts because of the rate they receive, even though it is small.

A Possible Development

"SPECIAL checking accounts, however, are more competitive. The 2 per cent rate paid by 48 per cent of the banks maintaining this type of account is not alarming; but the 3 per cent paid by 36 per cent may not be disregarded. Ten per cent pay 2½ per cent and 3 per cent pay 4. Fortunately, special checking accounts comprise but 7 per cent of the total deposits reported so their value as a disturbing competitive factor is not particularly high. But if they should tend to absorb a larger proportion, not only would accounts of this character make serious inroads into regular time fund fields but margins of profit would unquestionably be affected. Time certificates of deposit account for 6 per cent of all deposits reported. Eight per cent of the banks report no time accounts while 92 per cent seem to like them well enough to establish the service.

"Of all the various time periods, the prevailing rate for certificates is 4 per cent, paid by 42 per cent of the reporting banks. Thirty-three per cent pay 3 per cent and a very few pay 5 per cent.

"In the field of special time periods, 40 per cent of the reporting banks afford a ninety-day rate to their certificate depositors. The most prevalent rate is 3 per cent, paid by 62 per cent of the banks. Four per cent is paid by 25 per cent and 2 per cent by 13 per cent.

"Sixty per cent of the banks report on the ninety-day to six-month period. There the most popular rate is again 3 per cent, paid by 48 per cent of the banks. They are closely crowded, however, by 42 per cent of the banks which pay 4 per cent. But one bank reported 5 per cent while five reported the rate of but 2 per cent. Seventy per cent of the banks reported on the over six-month period. There 4 per cent is the most popular rate followed by 3 and 3½ in the proportion of 54, 35 and 11 per cent.

"Judging from the nature of the answers received, the time certificate fre-

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Commercial Banks Compete for Savings

(*Continued from page* 350)

quently enjoys a life of at least a year. This stability is highly desirable from the banker's standpoint no doubt. His pleasure, however, is frequently marred by the complaints of forgetful customers who strenuously object to strict adherence to the terms of the contract which plainly specify that no interest will be paid after maturity. A number of bankers therefore prefer savings accounts because of the absence of this controversial feature in that field.

"True savings accounts furnish 30 per cent of the sinews of so-called commercial banks in cities large enough to maintain clearinghouse associations. But five of the reporting banks disclaim the possession of savings accounts of any kind. As would be expected 4 per cent is the most popular rate, paid by 58 per cent of the banks followed by 3 per cent paid by 33 per cent. A very few, particularly banks subject to intensive building and loan association and, in a few instances, severe mutual savings bank competition, pay as high as 5 per cent.

How Rates Are Fixed

"WHILE the condition of the money market ultimately establishes the rates paid by banks, it is interesting to inquire into the methods by which the reporting banks have arrived at the rates their depositors enjoy. Clearinghouse rules account for 58 per cent of the rate establishments. In their absence, simple agreements among the banks account for 14 per cent. Another 14 per cent say that the rates were established by their own individual action, while yet another 14 per cent say that the rate levels paid are due to custom of some standing. In fact, all through the replies runs an undertone of the idea of custom as a factor in rate establishment.

"In the matter of limitation of withdrawals of interest-bearing funds, no reports were made in reference to ordinary or special checking accounts. In certificates of deposit, the idea seems to be generally prevalent that they should not be withdrawn prior to maturity. A small number of banks reported that they do not pay time certificates before maturity. Where such funds are so withdrawn, the well-known custom of complete forfeiture of interest is well nigh the universal rule.

"In savings proper, the thirty-day advance notice of withdrawal is the usual practice. No small number of banks, however, require sixty or ninety days' notice and some require even six months. A very few require none at all, if their statement to that effect is to be literally interpreted. It is more probable that what they mean is that, though they have in their pass books the requirement for advance notice, they do not use it in practice. That seems to be the state of affairs with practically every reporting bank. They treat savings accounts as demand deposits and pay them without any thought of ever taking advantage of the protection afforded by the customary pass book provision. The only limitation is forfeiture of interest.

"While clearing house rules and agreements among the banks are responsible for 72 per cent of the cases of rate determination they are only responsible for 43 per cent of the cases of withdrawal limitation. Fifty-seven per cent of the latter are due to custom and the individual action of the separate banks. Once again the theme of custom runs clearly through the melody of the answers.

Relative Growth

"MORE important is the answer to the question as to the comparative rate of growth of interest bearing deposits to total deposits. Fifty-eight per cent of the banks reported that the proportion of interest bearing funds was increasing, 30 per cent stationary and 12 per cent decreasing.

"In the matter of cost, 34 per cent of the reporting banks stated that the cost of their interest bearing deposit business was increasing at a faster rate than their increase in total income. Sixty-six per cent reported that this was not the case.

"Of the 34 per cent reporting an unfavorably disproportionate increase in cost, 52 per cent were concerned with the trend and 48 per cent were not. Some of the latter relied for their sense of security on the assumption that the whole matter hinged on the fluctuations of the investment mart; that no concern was necessary if interest rates paid would fluctuate with interest rates received. Others urged that accurate cost accounting was the only insurance. Some banks believed that apparently such conditions should be expected while others believed the condition to represent one of the banking problems of the day.

"Wide variations occurred in the answers to the question as to the proportion investment in bonds and mortgages bore to total time or interest bearing deposits. Fifteen per cent invested from 1 to 30 per cent of their funds in that manner. Twenty per cent invested from 80 to 100 per cent while the largest number of banks, 65 per cent in all, placed from 30 to 80 per cent of their time funds in investments of this character. The extremes of percentages invested ran from nothing to 220 per cent. But even these percentages are of doubtful value owing to the fact that, between each decimal point on the scale, about an equal number of banks was listed in each bracket.

"Segregation of assets against savings or other interest bearing deposits are required in but thirteen states. In the absence of that legislation 53 per cent of the reporting banks stated that they aimed to keep a definite proportion of their interest bearing accounts in assets such as bonds and mortgages.

Type of Deposit Preferred

"IN answer to the question 'what type of deposit—interest bearing or interest free—do you seek the more eagerly?' as was to be expected from so-called commercial banks, 56 per cent of the replies were in favor of interest free deposits. Thirty per cent preferred interest bearing and 14 per cent had no preference. A very few banks returned the somewhat surprising report that they did not seek any deposits and at least one reported that all its deposits were interest bearing.

"Of those which reported in favor of interest bearing deposits, 53 per cent preferred them because of their greater stability. The thirty or more day withdrawal clause, and lower reserve requirement were rarely given as reasons for the preferment. On the other hand, 43 per cent of those answering preferred interest free deposits because, in their opinion, they were more profitable. Of interest bearing deposits, 65 per cent preferred savings deposits, 14 per cent ordinary checking, 6 per cent special checking, 6 per cent time certificates and 9 per cent made no discrimination.

"Reasons for the preference for savings accounts varied as the colors of the rainbow. Savings encourages thrift and increases permanent deposits. Pass books stimulate saving more than certificates. Savings are desirable because of their stability, economy in handling and the smaller danger of clerical error. A larger volume can be handled in comparison with commercial accounts with the same overhead expense. Their greater stability makes them more profitable. They are attractive because of the opportunity of transacting an investment business with savings depositors; more profitable because of low handling costs and low reserves; more preferable because they represent a public demand for a particular service. Their field is larger; they are more popular and easier to obtain. A good savings depositor is apt to use other departments such as trust, safe deposit and bond departments. Their cost is lower than any other form of interest bearing deposit due to frequent withdrawals prior to maturity. Their average rate is less

than that on time certificates. Their overhead is less per volume; and so on to infinity.

Variety of Viewpoints

"THE protagonists of the other forms of interest bearing deposits are also articulate but not to similar degree. A considerable number of banks prefer ordinary checking accounts because they carry a lower rate of interest and require no bonds or other security as special accounts sometimes do. Their balances are fairly steady and their owners are satisfied with a 2 or 2½ per cent rate. Some banks regard them as the most profitable of all accounts, as the only way to get large accounts owing to the fact that building and loan associations in some localities make it difficult to get large interest bearing accounts because of the higher rates they pay. Other banks seek them because competition for them is not so keen as it is between banks which seek savings funds at rates of 4½ and 5 per cent. Others seek them because they represent the largest field for commercial banks and, besides, such deposits are not a drug in a cheap money market as are savings. Finally one bank states that its profits on commercial deposits are 1.96 as against .55 for savings.

"Special interest bearing accounts are preferred by their champions because they are generally found to represent a better class of business both in the size of the balances maintained and in lower handling costs. When reasonable minimum balances are maintained they are preferable to 4 per cent savings accounts. Others like them because they are usually inactive. Still others prefer them because they represent balances maintained against credit lines by large companies of A1 standing which also maintain substantial active accounts with satisfactory minimum balances. Most of the banks reporting in their favor consider them the most profitable account of all.

Certificates' Advantages

"THE same general line of reasoning applies to certificates of deposit. They are attractive to some because of their low reserve requirements and their minimum cost of handling, because of their lower rate of activity, their greater longevity and existence in larger amounts; because interest is paid but once a year against twice on savings; because it is easy to keep track of them and anticipate any abnormal withdrawals. The majority of those who prefer them do so because they consider certificates to be more stable than any other class of deposits.

"Various reasons are assigned for the usually more rapid growth of time funds as compared with demand deposits in commercial banks. The large majority of the answers reflect the thought that the increase is directly due to the educational campaigns of bankers in thrift ideas. This results in an increasing expectancy of all depositors for interest on their idle funds. Other reasons are: the reaction from applying the service charge, competition among banks for increased deposits, diversifications of the service rendered, general growth of the country, building and loan competition, entering fields not previously thoroughly canvassed, practice of large corporations to take out certificates of deposit to employ excess funds; commercial deposits are limited to industrial and commercial activity while savings deposits are not so affected. Other bankers allege that the rapid growth of time deposits exists only during the prevalence of an easy money market. Some feel that the increased growth is due to bankers' practice of making the time interest rate available to commercial depositors.

"This has attracted their funds from straight commercial accounts into time deposits. Commercial bank customers have also learned to invest their surplus funds in Treasury Certificates, bankers' acceptances, call loans and the like. To meet this competition bankers have been obliged to pay higher rates. On the other hand, many depositors are attracted to savings accounts because of the safety of their funds, because they know of no other or better way in which to invest their funds safely. The most bizarre answers were that the increasing growth of time funds is due, in one instance, to branch banking and, mirabile dictu, in another, to the unfavorable situation surrounding building and loan associations in that particular locality.

Highly Valuable

"NINETY-SIX per cent of the reporting banks regard their interest bearing deposit activities as a valued and to-be-cultivated part of their profit seeking enterprise, while 4 per cent hold a contrary opinion.

"Only a small number of banks reported on the question as to whether or not they regarded interest bearing accounts merely as a service of courtesy maintained for the benefit of the junior employees of their more valuable customers. Of the 30 odd per cent of those which did return answers 90 per cent did not regard them as such a service, while 10 per cent did.

"Both the last two answers are significant in that they show the decided drift of commercial banking toward the field of savings.

"With the thought that the practice of commercial banking of requiring compensating balances where credit lines were granted may have resulted in an advantage in deposit growth to commercial banking—an advantage largely denied to savings banking—it was deemed advisable to investigate the practice with some degree of completeness. It was found that 51 per cent of the reporting banks required the maintenance of a balance equal to 20 per cent of any unsecured credit. Seventeen per cent required 10 per cent, another 17 per cent required none at all, 12 per cent required 15 per cent. A few exacted a varying scale with a minimum of 5 per cent. One bank demanded 25 per cent and one even 50 per cent. A considerable number required no definite percentage of balance but did insist that the borrower be a deposit customer. Others regulated matters by basing the interest rate paid by the borrower on the size of his account.

"In the field of secured credit, lower percentages of balances were generally required. The largest number, or 37 per cent, of all banks reporting required 10 per cent of the credit extended. Twenty-seven per cent required 20 per cent and another 27 per cent required none at all. Nine per cent required 15 per cent.

Wide Differences

"IN the field of mortgage credit, the field of savings banking, there is not much comfort to be derived for the adoption of the practice by savings bankers. Seventy-six per cent of the banks make no demands at all for compensating balances. Fifteen per cent demand a 10 per cent deposit and 6 per cent a 20 per cent deposit. In the eyes of 60 per cent of the bankers, these obligatory deposits represent no material proportion of their total deposits. In 32 per cent, they do, with the proportions varying from 5 per cent to a high of 20 per cent with the greatest number around 10 per cent.

"Seventy-three per cent of the banks believe that these obligatory deposits are demanded generally by bankers as a means of increasing gross returns on a loan, particularly where the maximum contractual interest rate permissible by law is not satisfactory. Twenty-seven per cent hold a contrary opinion.

"As to the right of the banker to demand an obligatory deposit, 90 per cent of the banks ask for them on the general theory that the granting of a commercial credit is a reciprocation of a borrower's depositing custom. In other words 'if no deposit, no loan' or conversely 'if a loan, a deposit as well.'

"Other than that they allege no other extenuation of the practice which, in the eyes of some students of banking is not considered a justifiable one. The latter hold that the requirement of an obligatory compensating balance in a credit transaction is merely the result of prac-

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Germany's Foreign Loan Enigma

By DR. HANS LUTHER
President of the Reichsbank

Reich Now Required to Pay Approximately $1,500,000,000 Yearly for Interest and Amortization of Loans. This Sum Only Slightly Less Than Present Reparations Annuities. Future Loans from Abroad Must Be for Productive Purposes Only.

EVERY business crisis involves not merely the unemployment of a great many persons and a great many machines and other instruments of production, but also the unemployment of money. At the head of all considerations as to how a crisis should be overcome stands the question of providing work for human beings, because all business and all government primarily concern human beings. But it is necessary to consider also other factors in the process of work; and the factor which I am about to consider is money, which I understand here in the widest sense as comprising both credit and capital.

How, it will be asked, is the present business crisis to be overcome? The answer to this question is two-fold. First, it will be overcome because every crisis contains within itself the elemental forces to which it succumbs; second, the policies of responsible authorities can help toward overcoming the crisis.

Recovery Is Natural

NATURE itself offers facilities for the overcoming of a business crisis. Every depression period in business is inevitably followed by a recovery period. The chief reason for this is that during the depression prices fall and production cost declines. Concerns which are in possession of raw materials, or half-manufactured materials, or manufactured wares are compelled to dispose of them at reduced prices in order that they may keep business going, sometimes in order that they may have funds with which to pay their debts. At present in Germany there is a general discussion as to the rôle of wage reductions in the process of lowering production costs; and here it should be noted that carefully accomplished reductions of wages by no means necessarily involve a reduction in the wage-earner's real income. The most obvious factor in the reduction of working costs during a depression period is, however, not wage-cutting, but cheaper interest rates. The reduction of interest rates signifies cheaper credit for business.

Invariably any reduction of working costs along the whole line operates as an impulse to revived production and therefore helps in overcoming the crisis. How long the process of reducing working costs should endure and how far it should go—these are factors which vary in individual cases and which cannot be estimated in advance. As the present business crisis embraces the whole world, the impulse needed for revival will probably have to be very powerful. But there are already signs of improvement which, while they should not be exaggerated, also should not be ignored.

A World Problem

DR. LUTHER discusses here the prospect of business recovery in Germany and whether or not the present official restrictions on further foreign credits should be removed. He says that Germany needs capital from abroad but that the conditions under which it is borrowed are all important. He believes that it should be used only for the construction and equipment of productive enterprises so that it will pay for itself and not merely add to the annual payments Germany must now make abroad.

An improvement cannot come merely from the money and credit side. In this domain a great deal has already been accomplished, and it is perhaps not possible to accomplish more. Further, in considering the prospect of recovery, we must allow for the possible fact that the depression now under way is not one of the ordinary, regularly recurring depression waves. More likely it is a major reaction against the artificial expansion process which followed the war. If this diagnosis is correct, we may see further drastic developments before we can expect a recovery. That makes it all the more necessary to do everything that is possible by conscious action.

Germany's Special Problems

WHAT, it will be asked, has been done in Germany in the domain of money and credit, and what remains to be done?

Here we have three questions which should interest equally the expert in money and credit and the intelligent layman. The first question is whether credit in Germany could not be made even cheaper than it is by further reductions in the Reichsbank's discount rate. The second question is: how can it be ensured that the German money market, taken as a whole, will follow downward the reductions which have already been made in the official discount rate, so that credit will be cheapened in places far from the centers of business? The third question concerns the cheapening of long-term money; that is, of capital. Here the question arises as to whether or not foreign capital should be allowed entirely unrestricted entry into Germany. This last is really the question of the "Loans Advisory Board," the consent of which is necessary before the German local governments can borrow from abroad.

Concerning the discount rate it may be well to say a few words for readers who are not conversant with German money matters. The main business of the Reichsbank consists in purchasing trade bills with good signatures, against which bank-notes are issued. The Reichsbank can issue such bank-notes only when it possesses the equivalent in gold or foreign exchange as good as gold in a fixed proportion, or in the bills with good signatures above mentioned. As consideration for purchasing such bills the Reichsbank gets the discount rate, that is in effect interest deducted from the amount of the bills. When this discount rate is low, business has cheap money. The last statement is all the more correct because the general interest rates in business move, though with intervals between, more or less in accord with the Reichsbank's discount rate.

In the first half of the current year

the Reichsbank acted fully in accord with these considerations. Whereas up to near the end of 1929, the official discount rate was 7½ per cent, the rate has since been reduced seven times, until it now stands at 4 per cent, or little more than half the rate of last year. The fact that in spite of this reduction business continues depressed is to be explained by saying that the price of money is by no means the only factor that counts. The determining factor is the general cost of production.

It may be asked why does not the Reichsbank reduce its discount rate still further and by this means make money still cheaper? The answer is that the discount rate reduction is no arbitrary, independent process. It must be in relation to the interest rates prevailing in the free market, but it must not be governed entirely by the free market. The interest and discount conditions in other countries must be taken into account by a country like Germany, whose business is closely interwoven with the business of the outside world.

Germany here is in a special position. In consequence of the destruction of capital by the war and by the inflation, a very large sum of foreign money is always in German hands. But foreign capitalists put their money only in countries where, in addition to good security, they can get a high rate of interest. If therefore the German discount rate were to be reduced very low in comparison with rates prevailing in foreign countries, the result would be an outflow from Germany of foreign credits. This consideration imposes a limit upon Reichsbank discount rate reductions; and in present conditions the limit has been reached with a Reichsbank discount rate of 4 per cent.

It may be asked why, if foreign money is so necessary to Germany, the Reichsbank discount rate is not set higher, in order that foreign money may be attracted? The answer is that this would be a double-edged measure. It would make home money dearer. Further, there are strong objections against any increase in Germany's short-term indebtedness abroad. Any unexpected convulsion, any ground for insecurity, whether in Germany or abroad, might result in the calling in of such short-term credits.

An Unsound Condition

IN this lies an element of danger. Short-term foreign money in Germany is not used exclusively for short-term purposes. Both in public and private business, a very considerable part of these credits has been devoted to permanent investment. As a permanent feature this is unsound. The cause of it is that before the beginning of the present trade depression, Germany needed, or believed that she needed, to found a great many productive, and in part unproductive, undertakings; and for these purposes she could not get long-term loans, or could only get them on onerous terms. This condition is a strong reason against encouraging any increase in Germany's short-term indebtedness abroad. Indeed, the real present need of Germany is to convert her short-term indebtedness, whether home or foreign, into long-term loans. This need is increasingly realized by the German people; and it is a favorable sign that the municipalities have now taken up seriously and with some success the question of consolidating their debts.

As it is impossible, for these reasons, to cheapen German money any further, it is all the more important to see that the ultimate credit-taker, who is often far away from the first sources of credit, should benefit to the full from the cheapening of money which has already taken place. So far this has not been fully attained. There is a very great "spread" between debit and credit rates. Improvement in this respect is obstructed by the fact that a great part of the credit given is in reality frozen credit and that some of it even consists of doubtful debts. In order that the credit-givers may in such circumstances maintain their own liquidity, they are obliged to attract deposits by offering very high interest rates; and this makes inevitable the charging of high interest rates on loans. In such conditions no improvement can be expected from the money-market side; it is necessary, rather, to improve the whole basis of business in order that frozen credits may be made liquid.

Valuable Cooperation

A WELCOME sign of genuine and constructive cooperation in German business is the fact that all the parties interested now keep in close touch with one another. Important agreements have already been reached with the aim of eliminating such unhealthy competition as tends to make credit dearer. One instance of such cooperation is an agreement between the German "Giro-Central," which is the top institution of the saving banks, and the central authorities of the cooperative credit system. Cooperation of this kind is not indeed new, but of late, on the initiative of the Reichsbank, it has been considerably extended.

The next question concerns the accumulation of capital and its cheapening. In this matter all business depression periods tend to show the same feature, one which at first sight seems curious. Whereas short-term money becomes every day cheaper, the interest rates on capital do not correspondingly fall. That is today shown in Germany by the movement of state and other public loans, of mortgage bonds, and of the bonds of business undertakings. For this phenomenon there is a reason which, within certain limits, is satisfactory. If the possessor of money for which in the short-term market he can get only low interest rates were suddenly to transfer his cash to the capital market, a dangerous situation would result. As soon as, in consequence of the progressive revival of trade, money began again to be required for working capital or for investment in plant, investment securities would have to be sold in vast quantities, and a heavy loss on the Bourse quotation of such securities would ensue. Such losses would cause a new serious crisis in the capital market, and this in turn would react injuriously on business. In 1927 Germany had a very unpleasant experience of this kind. But while it is undesirable that unoccupied money should be temporarily transferred to the capital market in great quantities, every tendency to invest money on long term is nevertheless a sign that business depression is being overcome; and there has been a gradual recent improvement in the German capital market which must be regarded as a sign of returning confidence.

Lower Mortgage Yields

THE process of improvement in the German capital market moves very slowly but it can yet be seen. Mortgages have become a little cheaper. The securities which on the Bourse correspond to mortgages, that is mortgage bonds, have been reduced from an 8 per cent type to 7½ per cent, and even to 7 per cent.

To cooperate in this cheapening of capital is one of the most important tasks of the German Government. The question is therefore very much alive whether official obstacles to the inflow of foreign capital should not be removed. Given certain conditions, foreign capital is not only beneficial to Germany, it is indispensable. But here the conditions upon which the capital is obtained are the determining factor.

First of all, foreign capital imported by Germany must be so invested that it pays for itself. If borrowed foreign capital is invested in the construction and equipment of an industrial factory, the output of this factory will be an addition to our total national production; and this will make it possible to pay the interest on the loan and to repay the capital within reasonable time. Of vital importance therefore is the question how the borrowed foreign capital is to be used. It must be used productively. Next comes the question of the interest rates on foreign loans. Were the use of the capital and the interest rates to be ignored, foreign borrowing would merely have the effect of increasing our total liability to abroad. The addition which it would cause to our liability for inter-

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Banks Need Trust Departments

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fiduciaries; for as these large estates, or even the income, are turned over to the heirs they will in turn become trust minded, and when they become possessed of their inheritance they will naturally arrange to have their estates administered by a corporate fiduciary, and will most likely select the bank or trust company through which some of their property came to them.

In our bank we are proud of the fact that we have on our books names which represent the fourth generation of families which have continuously been doing business with our institution, and we hope to have the same record in our trust company.

I think the association between the commercial banker and his customers, which leads to an exchange of confidences, enables the banker to become familiar with the affairs of a corporation, or of an individual, better qualifies him to act as trustee of the estate represented by stock ownership of these enterprises he has helped his client to develop, than some trustee who has not had the advantage of this intimate knowledge.

The banker who has been doing business with a man for many years also frequently knows his family problems and is more in sympathy with the provisions of the will, or trusteeship relating to them than any other trustee. Between the banker and his customer is built up, over a long period of time, a confidence, and he is always willing to talk over the question of a will, or the disposition of his client's property, in anticipation of the time when it will pass out of his control.

The bank with its board of directors must realize that its business can only be built up on the confidence of the public, and when this is accomplished it is but an easy step to have its clients who are satisfied to have the bank act as custodian of their funds while they are living or have its trust department act for them when they have passed away.

Each Helps the Other

THE administering of trusts necessarily brings in new contacts with the bank and new accounts are apt to follow, and as each estate is administered it opens up broad avenues for new business in the commercial, savings, investment or other departments of the bank.

There never was a time in the history of our country when the executive heads of all departments of business were more alive to the importance of study and research, seeking to find the most advantageous way to further the profitable operations of the corporations they represent, and this particularly applies to the executives of banks and trust companies throughout the United States.

There never was a time when there was closer or more friendly cooperation between the leaders in the same line of business, as illustrated by such organizations as the American Bankers Association, The Steel and Iron Institute, The Textile Institute, the Public Utility and Electric Associations and many others. Competition of course does, and should, exist, but the day has passed when the smart man thinks he can succeed without having the good will of his competitors.

It is through such times as we are now passing, with fewer people trying to turn the stock ticker into an Alladin's lamp, and more people willing to work hard for the money they wish to earn, that we lay the foundation for our future prosperity, and I am sure the banks and trust companies will continue to be a great cooperating and conserving force in the future growth of the country we are proud to call our own.

Growth of Estates

WITH the rapid growth of the wealth of the people of the United States, particularly during the past decade, and the remarkable consequential growth of estates entrusted to corporate fiduciaries and with the recent enormous amount of insurance funds of more than $2,500,000,000 trusteed, it would seem reasonable to expect a rapidly increasing appreciation of the splendid services rendered by the banks and trust companies.

While the $2,500,000,000 in life insurance policies now deposited in the banks and trust companies in the past few years is an enormous amount, when we realize that it is but 2½ per cent of the indicated crop of more than $100,000,000,000 waiting to be harvested in this field of new business, the possibilities are most encouraging.

While it has taken about seventy-five years to put $100,000,000,000 on the books of the insurance companies, with the recent growth of this business and the benefits of life insurance being more and more appreciated, it is not unlikely that the amount of life insurance now in force will be doubled in the next decade.

It is very gratifying to know that the life insurance companies are friendly to the interests of the trust companies in handling this business. However, it is but logical reciprocity for the cooperation the insurance companies have always had from the banks, which have strongly recommended their clients to take out life insurance and in many instances have required it.

It has been said that about $30,000,000,000 of estates are now being administered by banks and trust companies, and that 1086 estates of over $1,000,000 were trusteed in 1929, nearly twice the number trusteed the year before. The aggregate of estates of this class was more than $1,000,000,000 and the number of trust appointments this year will be more than ten times the trust appointments made seven years ago.

$5,000,000,000 Yearly

IT is estimated that about 400,000 estates, with a total value of more than $5,000,000,000, are now passing annually by death and being administered, all of which could best be administered by corporate fiduciaries.

Wealth of itself is a transient commodity and without safeguards and expert management is all too easily dissipated and the benefits lost to our dependents. In the average American family, estates are usually accumulated by the strong, resourceful head of the family, and at his death all too frequently have passed into weak and inexperienced hands.

About the beginning of this century, when the distribution of wealth began to occur generally over the country, the conscience of the property owner was awakened to the proposition that it was not enough to acquire property—that his duty to his dependents was not fulfilled by leaving them money and property outright—that this acquired wealth must be safeguarded in strong hands so that his dependents would not be left in want as a result of their own folly, or inexperience, or worse, to the uncertainty of the responsibilities of an individual trustee.

How often have we heard of the savings of a life-time entrusted to a friend as trustee, either being mismanaged, or the entire sum squandered in poor investments, in many of which the individual trustee had a personal interest? This danger is absolutely avoided when a responsible corporate fiduciary is named as executor, or trustee of the estate, whose actions and investments are controlled by law and whose mistakes, if any, can be made good, and whose every undertaking is backed by large capital resources.

The corporate fiduciary is impartial and deals justly with all. It knows how to administer and divide property. Thus "family rows" and the personal resentment against the relative trying to handle the family property, or the individual friend, are eliminated.

When the father has protected his

daughter with a trust fund in the care of a strong bank, her independence is assured and she does not fall out with her perhaps charming but inexperienced husband about her money. When he wants to experiment in business, she may sweetly say, "Darling, I would gladly give you the money, but daddy put it in that old trust company." This may also protect the wife and the children of the decedent against the business folly of his possible successor.

There has been considerable discussion throughout the country and in Congress on the subject of the development of branch and group banking. It is a big subject and one worthy of the most careful consideration. As it relates to the further development of the trust business, I believe it has an important bearing.

Status of Movement

OF the 28,177 banking offices in operation at the end of last year, 21,824, or approximately three-fourths, were unit banks having no branches and operating independently of chain or group systems. There were 2103 banks operating in chain or group systems and 1415 were branches of chain or group systems. There were 703 head offices and 2132 were branch offices of branch systems operating independently of chain or group affiliations.

Notwithstanding the small proportion of banks with branches, together with banks in chain or group systems, they reported approximately one-half of the loans and investments of all of the banks in the country, and about two-thirds of the loans and investments of the member banks of the Federal Reserve System.

Practically all of the controlling banks in this class now have well-equipped trust departments and they are in a position to secure a variety of trust business in localities where trust departments are not available.

The growth of group and branch banking will inevitably bring to the smaller communities the benefits of corporate fiduciary services through the expert advice of a larger affiliated institution, which new business will in time, as I have already pointed out, bring new business to the various departments of the bank itself.

The commercial and trust departments are the twin wings of a modern bank, working separately and yet in harmony, while each performs its important part in carrying the institution with lofty purposes to higher achievement.

I am sure the people will increasingly appreciate their services, feeling they can now patronize the financial institutions of the United States with greater confidence than ever before in our history.

Profit Margin on Small Loans

(*Continued from page* 325)

the people forever and eternally behind."

If these figures indicate a splendid condition of one institution and a condition which causes no anxiety in our management, the query and the reason for their introduction is this:

To what extent does that section of our volume above the 5.52 per cent or the 23.68 per cent in 1925 or that section of volume in 1930 above the 10.57 per cent or the 34.58 per cent, represent refunding transactions, left-overs, carry-overs, refinancing at some other credit granting or lending institution? To what extent in the entire 100 per cent of volume is there a tendency of the people with whom we deal to borrow from Peter to pay Paul, and from Paul to pay Peter? To what extent is there a tendency of certain people to try to hold themselves up by their own boot straps—and the banks providing boots that do not fit?

One study in which this condition is touched upon points out that only 55 per cent of the principal amount of loans made is turned over to borrowers in cash, 45 per cent being retained to refund loans in the institution which granted the loans. And who knows how much of the 55 per cent delivered in cash was used to pay debts or loans somewhere else? The survey to which I refer represents loans examined in 1922 before credit was so generally urged, almost universally forced upon people. In one of our major cities the name of every borrower, whether old or new, is checked through a clearing house to ascertain the extent to which the party applying for a loan may already be up to his ears in debt with other institutions. I am told by the manager of one of the largest personal loan companies that upon his joining the clearing house the percentage of his declined loans on account of being apprised of too much loading up and pyramiding increased 10 per cent. There comes to our bank every day in Chicago the record of borrowers who are involved with half a dozen loan companies and so many installment accounts that their total obligations have mounted up to as high as three years' income.

One of the important considerations to think about is not only what is a reasonable amount to loan against a borrower's income through an ensuing twelve-month period; it is, to what extent is the borrower involved to an equal or greater amount of obligations with loan companies or creditors, and to what extent if a loan is made to fund all debts might the borrower celebrate by getting himself sooner or later into the same pickle all over again.

The stability of a business lies in the strength of its reserves. Strong business concerns use the commercial banks for reserve credit. Banks themselves have a central Federal Reserve reservoir of credit which they use on occasion. Likewise the stability of an individual lies in the strength of his reserve. He also should have a shock absorber, a reserve credit bank, not a bank of permanent resort, but a bank of occasional reserve resort. In the last analysis that is the position in the field of credit that a personal loan company ought to fill.

The personal loan in its organized form had its inception in a desire to cure a vice and to uproot an inhuman exploitation of people and the miseries of humanity. It was pulled out of the ruck by public-spirited citizens of various communities. It was shielded by the interest of a class of investors who did not look for quick or sordid profit.

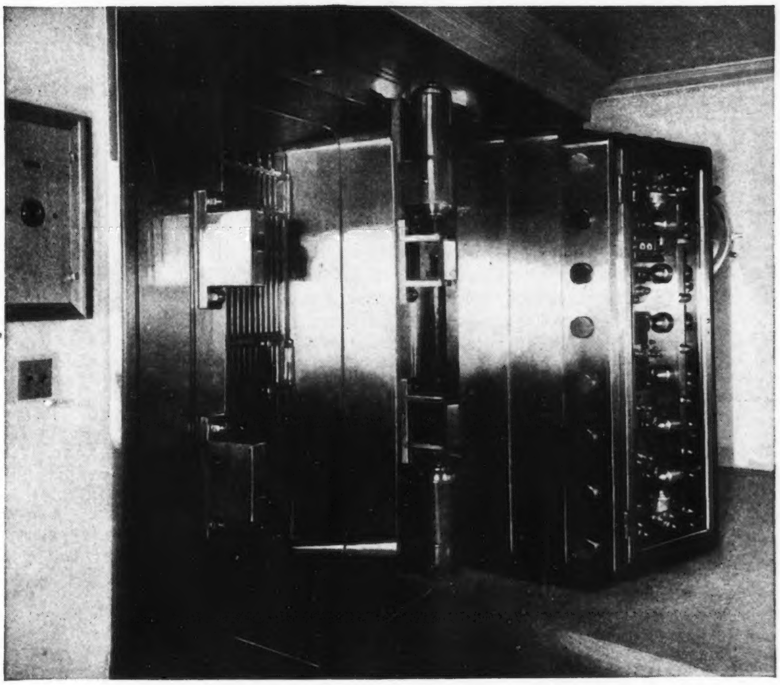
A great deal may have been said about the Pollyanna side, but the personal loan business did not grow up like Topsy. The forces which were responsible for a service of proved constructive value to people of moderate means were possessed of sound thinking upon fundamental lines.

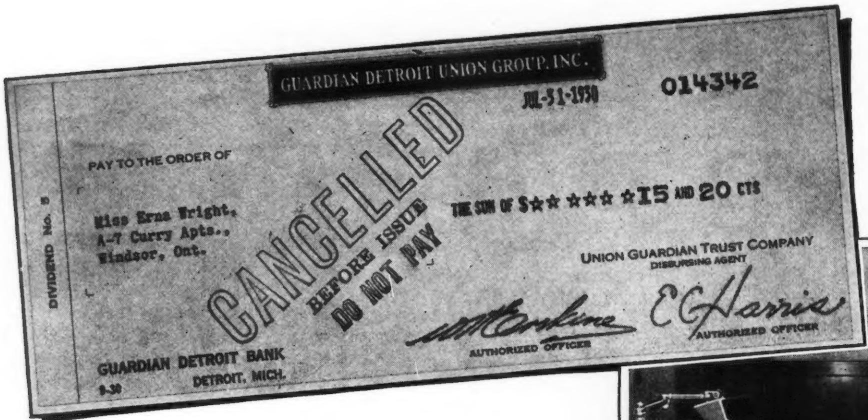
These forces appreciated the occasional stress which confronts people of integrity and good intentions. They believed that wise borrowing is an aid to thrift and industry, and they provided a wise borrowing plan. They were convinced that the careless uses of credit served to aid extravagance and disaster.

Real Basis for Growth

FOR the future we should adhere to the same fundamental principles upon which the business has been established and tested, and we should in addition accept the limitations which have grown out of experience. We should recognize the limitation of the very high cost of doing the business. We should recognize a limitation of the field and the consequent limitation in the facilities required. We should think of the limitation of the people themselves in their use of the facilities offered.

We should, we must, accept the banker's duty, a duty which has always been the banker's—to teach the difference between the constructive results of productive credit and the destructive effect of permanent, unproductive, consuming debt.





Checks are fed through the machine in sheets of five and printed in duplicate. One girl can perform all operations but under this arrangement the Union Guardian Trust divides the operations among three girls

Left, Check filled in and signed by the National Check Writing and Signing Machine.

DETROIT BANK

MAKES STRIKING SAVINGS WITH NEW NATIONAL CHECK WRITER AND SIGNER

With more checks to write than ever before and a growing necessity to get them out in the shortest possible time the Union Guardian Trust Company of Detroit faced the same problem that is facing hundreds of other banks.

"We think we have solved this problem," says an officer of the Union Guardian Trust, "by installing the National machine which numbers, dates, fills in and signs 2,100 checks an hour.

"One stock transfer trust recently disbursed approximately $2,500,000 to about 23,000 shareholders. These checks were put through the machine complete in 30 hours and the entire operation of getting out the dividends and enclosing it ready for mailing took only 60 hours.

"A conservative estimate would indicate that without the machine at least 180 hours of concentrated work would have been required and several temporary workers would have been needed in addition."

This machine is surrounded with every possible safeguard and gives an audit control that has never before been available with any machine. It will accomplish just as much for other banks as it has for the Union Guardian Trust Company.

THE NATIONAL CASH REGISTER COMPANY

World's Outstanding Producer of Accounting Machines and Cash Registers

DAYTON, OHIO

The Condition of Business

Moderate Seasonal Expansion Is Reported. General Industrial and Trade Activity Still Lags. Merchandise Stocks Have Been Substantially Reduced. Prices Make New Lows. Increase in Savings Deposits Keeps Money Cheap. Stimulates Bond Market.

THE past month has brought some improvement in business activity, though the gain has not been marked and in some quarters is regarded as even less than normally occurs in the fall season. Confidence appears to be growing that the month of July probably established the low point of the present cycle of recession, with August practically no better, but that we are now starting the climb back up to normal and beyond. Just when business may be expected to have recovered to normal cannot as yet be estimated with any great degree of exactness, and normal is itself a variable standard according to the statistics selected for its determination.

Despite the slack volume and unsatisfactory profits that are characteristic of business today, a great many executives feel that their organizations have made a very satisfactory showing, all things considered. Every month during the past year has brought its ample share of unfavorable news and developments and the seasonal gain in September would doubtless have been greater but for the presence of at least four of such major factors,—namely, disturbed political conditions in several foreign countries, a falling back of the stock market to the June lows, renewed weakness in wheat, coffee, cotton, silk, copper, tin, rubber and other commodities, and unseasonably warm weather.

While manufacturing activity is still curtailed, this must make for a stronger condition in the future, particularly in the automobile industry. Steel mill production has now turned upward and the cotton goods industry believes that it has turned the corner. Employment and payrolls showed a slight increase last month.

The liquid condition of the banking system is one of the strongest elements in the situation, time money rates being the lowest for this season in the last fifteen years and member bank borrowings at the Federal reserve banks the lowest at any time in the last thirteen years. Savings deposits have been rising rapidly and this has raised the prices of government bonds to new high ground and stimulated the market in other high grade and second-grade issues as well.

The history of past depressions in business shows that they invariably bring forth countless suggestions from all classes of people on ways in which such depressions may be avoided, and the present is proceeding true to precedent. Most any suggestion along these lines can get a hearing today because of the widespread anxiety for better business and for preventing another serious slump from ever recurring. Remedies urged during the past month range all the way from the government allowing industries to combine into huge trusts and to fix prices based on costs, to a complete decentralization of industry.

Most of the theories announced include the use of government activity to accomplish what business has been unable to do for itself. It may be said without fear of contradiction that many of these theories on how the Economic Commission of the League of Nations might maintain world-wide stability are proposed by individuals who have been unable to make a success of their own business and put the blame on the economic system. Suggestions of this sort seldom do any harm, and occasionally result in improvement, but our present cooperative system has grown so diversified and intricate that the average person never even gets to really understand it.

Governments may foster prosperity, but they cannot make it. Our most progressive industries are those that rely upon themselves for controlling output, raising capital and installing improved methods. Increased regulation by bureaus has usually meant decreased progress.

Taking the automobile industry as an illustration of business meeting its own problems, the American manufacturers curtailed production from 4,224,911 vehicles in the first eight months of 1929 to 2,704,957 in the first eight months of 1930. As the cars already registered are being run as much as ever, judging by gasoline consumption, this much smaller addition to the supply will assure increased sales eventually to replace the worn-out cars. When that time comes the motor industry will find depleted markets to supply instead of an accumulated surplus from overproduction, such as would result if it had convinced the government that public funds should be appropriated to buy all the surplus so as to enable this leading industry to maintain production and prices.

Steel production during the summer months was curtailed moderately in order to correspond with slack demand, but recently has been speeded up, and comparisons during the remaining months of 1930 against 1929 will appear relatively more favorable on account of the pronounced downward trend of a year ago.

Cotton mill executives now express the confident opinion that the industry has turned the corner, and that the constructive moves undertaken during the past year will be successful in rehabilitating it. They say that the approval by the directors of the Cotton Textile Institute of the plan for elimination of night work by women and children forecasts a gradual abolition of all night shifts, and that the textile trade may look forward to a brighter era.

Building Construction Gains

AN upturn in contract awards for building construction in September has given some encouragement to the outlook for the remainder of the year. Few people look for any marked change in the immediate future, but there are many indications of a slow and steady upward movement, with the possibility of a slight backward swing late in the year. Outlook for the longer-term future was commented upon by Truman S. Morgan, president of the F. W. Dodge Corporation, in an address before the Credit Association of the Building Trades in New York, from which we quote in part as follows:

> "There is as yet insufficient data at hand to promise a great deal for 1931, but conditions seem to be favorable for a year of moderate activity which may gather considerable momentum late in the season. Much depends upon the restoration of public confidence.
>
> "It seems to me that we are shortly to enter upon an era of unprecedented prosperity, and I mean by this genuine good times, within the next five years, based on sound business procedure rather than the hectic land, stock market and speculative building manipulations which have entailed so much grief for many during the past year. There are sound reasons for this optimism. . . .
>
> "The homes built in the next ten years are not likely to be of the type we have seen go up during the past decade. Money will not be readily available for the shoddy construction which we find in the 'new slums' of many suburban districts. The modest home of 1935 will be built of the best materials, equipped with the latest sanitary devices, as well as with all modern appliances for comfort and conveniences."

Now that some business men have about given up the fear that the collapse of the 1929 boom would mean the end of the world, there is a likelihood that they will follow the lead of some of the larger

corporations which have used the past year as an opportune time in which to carry forward their building expansion that will be required to handle the normal growth of business. The telephone business is one that has experienced a substantial falling off in revenues from the very important brokerage division of its services, yet the New York Telephone Company has just announced an addition of $12,000,000 to its budget for the current year, bringing the total appropriations in the year to date to over $80,000,000. The Fisher Brothers have just announced that a proposed $10,000,000 office building in Detroit, similar in architecture to the Fisher Building, will be started immediately instead of a year from now as originally planned, "as an incentive for others to proceed with normal expansion and thus assist in solving the present unemployment problem."

Favorable News Not Entirely Lacking

IT would be a mistake to allow the current news of poor earnings, dividend omissions and falling markets in securities and commodities to obscure the favorable developments that are taking place in some lines. One of the largest shoe manufacturing companies, the Brown Shoe Company of St. Louis, reports that its production is running around 80 per cent of capacity and that a marked improvement in sales has taken place during the past four or five weeks and that sales continue to show a steady upward trend as retailers place orders for fall and winter trade. Reports of an improved market in upper leathers come from Chicago and, despite fairly large stocks of finished leather in the hands of tanners, their stocks of raw materials are said to be so low that a moderate improvement in buying would no doubt force prices of both raw and finished products sharply upward.

C. A. Burmeister, senior economist of the Department of Agriculture, is authority for the statement that, from the standpoint of market supplies, the outlook for hogs during the next two years promises considerable improvement. The scarcity and high price of corn will cause producers to sell a large proportion of their 1930 pig crop at unusually light weights during the coming winter and next spring and summer. Domestic demand for pork and lard will be governed by developments in our industrial conditions, and improvement in business will be followed by an increasing demand for all meats.

Increasing Output

THE most trying period of the depression in the radio industry is past, according to a recent announcement by the Arcturus Radio Tube Company of Newark, N. J. It states that demand for its products is steadily increasing and that its production department payrolls have increased from 180 the middle of July, and 65 some months before, to 800 at the present time, and that this increase in employment is based on actual orders and not merely on anticipated business. The Philadelphia Storage Battery Company, makers of "Philco" radios, has increased its forces from 1500 four months ago to 4000 at present and will have 5000 within the next month. The R. C. A.-Victor Corporation of Camden, N. J., one of the largest producers, has increased its daily production from 3000 sets to 4600 and within a few weeks expects to increase the rate to 9000 sets daily. The company's plants now employ 22,000 men and women and 3000 more employees will be added shortly.

The Oil Industry

OPTIMISM concerning conditions in the oil industry is expressed by E. B. Reeser, president of the American Petroleum Institute and the Barnsdall Corporation. The crude situation is said to be the strongest in recent years from the standpoint of actual production, with continued adherence to proration programs, and the refinery position is continuing to show improvement. The recent reductions in gasoline prices were for the purpose of eliminating the wide spread heretofore existing between wholesale and retail prices, which encouraged secret rebates and commissions which under the new price structure will be unlikely, and the move is thought to be in the direction of a better stabilized petroleum industry.

An increasing flow of inquiries for machinery and machine tools is noted by the *American Machinist*. Current demand is mainly for single tools and for actual replacement needs, but there has been fairly good buying from the electrical and radio, paper and construction industries. Demand from Canada is reported to be returning to normal.

The long-anticipated seasonal upturn in thrown silk is now in full swing and an increasing number of manufacturers are placing contracts for sizeable lots for spot and nearby delivery. It is believed in the trade that the present high rate of activity will continue for some time to come.

Wholesale and Jobbing Situation Better

SINCE Labor Day a much better feeling in the wholesale and jobbing trades has become apparent. Whereas earlier in the summer distress merchandise was plentiful, merchandise stocks have now been pretty well cleaned up and shortages are beginning to appear in various lines. This is particularly true in cheaper cotton goods, and ready-to-wear lines. Any material improvement in business would find goods scarce, and merchandise buyers are now taking precautions to insure supplies by taking options on additional goods beyond immediately foreseeable needs.

The Federal Reserve Bank of New York reports that the department stores in its district that submit figures covering their inventories, now have stocks that are lower than those of a year ago by a greater percentage than has been shown by the corresponding figures for several years. Conservative policies on making merchandise commitments may be overdone, just as were the ultra-optimistic policies a year or so ago, and the scantiness of stocks is no longer a possibility but a reality. Many manufacturers find that while the first orders placed for fall business were small, the reorders are coming in lately in very satisfactory volume. In most cases the orders come in by telephone or telegraph and urgently request immediate shipment.

It would therefore be unfair to judge the long-term prospects of business on the conditions visible at the moment, when both activity and prices are at or around the bottom levels, just as it would be unfair and difficult to accurately judge prospects when business is at its crest. When commodities are declining and business is slack, the purchasing by manufacturers, middlemen, retailers and even by the individual housewife of staple household goods and supplies, is restricted to a minimum. On the other hand, should there be a change in sentiment, with a rise in prices and a feeling that they were working still higher, the scale of purchasing would increase all along the line. Actual consumption of the staples and necessities of life does not fluctuate very widely between good times and bad, but the demand as reflected in the markets and measured by statistics showing "disappearance of visible stocks" is subject to extreme variation.

New Lows in Prices

A FEW weeks ago it appeared as though the decline in commodity prices had run its course and that a number of items would force themselves upward again to levels that approximated the cost of production. This view seemed to be confirmed by the recent publication of the August index of the Bureau of Labor, which at 84.0 stood unchanged from July. Prices of farm products on an average had recovered slightly and the average of all raw products was up slightly. The index is based on 550 commodities at wholesale with the year 1926 taken as 100. On this basis,

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State Secretaries Section

(Continued from page 337)

thority over the membership. No regional clearinghouse can possibly put good banking measures into operation except it can, by application of proper penalties, enforce those agreements to which the bank members have mutually bound themselves."

Mr. George A. Starring, of South Dakota, chairman of the committee on improved banking practices, said that during the past two years the question of how to improve banking practices had become a leading project of bank organizations throughout the nation. He advanced the suggestion that a special standing committee representing the State Secretaries Section might cooperate advantageously with the Bank Management Commission of the American Bankers Association.

W. F. Keyser, of Missouri, chairman of the insurance committee, discussed "Insurance Perplexities." He said that the time was too short for reading the entire report but that it would be printed later and distributed. He said that it contained details of several changes made in the 1925 copyrighted burglary and robbery policy—changes which he felt would be beneficial to banks.

Mr. W. W. Bowman, of Kansas, chairman of the protective committee, recommended the following measures for safety: First, that every bank at all times should carry in its vault and till only a minimum of its actual cash requirements. Undue and unnecessary exposure of cash and securities is dangerous and invites attack. Secondly, it is unsafe for the property of the bank and unjust to the officers and employes that a single officer or employee should be left alone in the bank during business hours.

Mr. Charles F. Zimmerman, of Pennsylvania, chairman of the committee on public education, said:

"Confidence in our banks is a cardinal principle in the work of public education. Demonstrations of relative confidence of the public at least in bank shares, is found by comparing the course of the recent market values of shares of the smaller unit banks of the country with those of the largest unit banks, bank share holding companies and banks operating state-wide branches."

Mr. George Susens, of Minnesota, chairman of the committee on taxation, said that banks had never objected to carrying their fair share of the tax burden, but had just cause for complaint when their taxes are three or four times those of similar businesses. He urged the state associations to be alert when measures were pending before Congress and to lend proper support to the committee on taxation of the American Bankers Association.

Shall We Attempt to Block Natural Economic Forces?

(*Continued from page* 271)

would strengthen the national banks, would extend the benefits and strength of city banking organization to the country districts and allow national banks to adapt themselves to modern regional economic developments and requirements, which, he claims, are evidenced in the spread of group and chain banking in some sections of the country through what might be designated as economic trade areas, comprising sometimes several states, and in other instances largely along Federal Reserve District lines. The Comptroller expressed the opinion that "trade-area" branch banking if legalized would supersede group bank systems, which, however, if they should continue to exist, he would bring under some measure of Federal supervision where they comprise members of the National Bank or Federal Reserve Systems.

Former Governor Young of the Federal Reserve Board also appeared before the Banking and Currency Committee. He expressed himself as being in general agreement with the Comptroller in respect to the proposal for "trade-area" branch banking, which, he said, is preferable to group banking. He said that group banking, however, constitutes an economic development along "trade-area" lines, and that it will continue to spread unless it is checked. He opposed an arbitrary check without the substitution of something more desirable, and said that he thought "trade-area" branch banking would serve as such a substitute that would check group banking. He expressed himself as opposed to nation-wide branch banking at present, as proposed by some, because our bankers are not yet prepared by experience and training for banking of that scope. But he did say—and this is significant—that if "trade-area" branch banking were permitted, he believed it would in time evolve into nation-wide branch banking after our bankers became trained and experienced in the larger technique of "trade-area" banking. He also expressed the belief that ultimately "trade-area" banking would evolve under control of relatively few banks, but he did not believe this would mean monopoly or lack of competition.

The Banking and Currency Committee also called a number of operating heads of some of the great group systems. These men declared that they found, under certain conditions, definite operating and economic advantage in both group and branch banking over independent unit banking. Some thought

group banking was only a transitional stage, that branch banking was preferable and if it were permitted on an extensive enough scale they would change their groups over to branch system. Others held that group banking is permanent and was preferable as being more flexible and maintaining greater local independence and contact. Some held that the ideal plan was a combination of the two, with group bank units for localities strong enough to support complete banking institutions, and with branch offices extending farther out into the smaller places requiring banking services but not large enough to support complete banks.

Always Room for Vigorous Units

THESE bankers evinced a broad-minded financial viewpoint and a high sense of social responsibility. Most of them declared that they believed there would always be room for vigorous independent unit bank competitors. They referred to the broad economic changes that have taken place, such as I alluded to, and took the stand that the necessary adjustments of the banking structure could be properly worked out along group or branch banking lines or a combination of them. This structure, covering an extended area, they argue, has the diversification that a detached unit bank in a one-crop or one-industry town cannot have, can give a community the banking facilities it needs, either a complete bank or an office or a part-time service where the volume of business would not supply earnings on the capital required for an independent bank, and would give all the communities it serves advantages of large capital and high managerial ability emanating from the main offices.

Unit bankers also appeared before the committee. They expressed viewpoints to which we all will sincerely render hearty agreement. Indeed, at the hearings those who took a position in favor of an extension of branch banking very distinctly expressed full understanding of the values of unit banking also.

Governor Young indicated that his position in favor of branch banking was taken with great reluctance inasmuch as he himself was a country banker and his sympathies were with the unit bank. Most of the witnesses before the committee granted the force of the major arguments in favor of the unit bank, namely, that if the unit bank can be made strong enough it is better fitted to care for local interests because its officers are in closer touch with the local conditions, their own interests and the interests of their bank are inseparable from the interests of the community, their institution is an object of local

pride and represents the independence and self-reliance of the community of which it is part and parcel and with which it must rise or fall.

Thus the position of the unit bank where conditions warrant its continued prosperity is unassailable. We believe, and it seemed to be the well-nigh unanimous feeling at the hearings, that the strong, well-managed unit bank should be preserved and will undoubtedly continue to live and prosper.

Must Divide the Field

BUT, on the other hand, the powerful economic forces behind the development of multiple bank organizations seem to indicate that unit banks will inevitably have to divide the field with some form of integrated banking organization. We find the country facing the very definite issue to decide sooner or later the relative parts unit, group and branch banking shall play in our national banking policy and structure.

The hearings already had at Washington demonstrated that there is a fairly unanimous feeling that branch banking within the limits of a community is not open to serious objection and improves both the service and strength of local banks. It was also strongly argued that branch banks, either of "county seat" banks or of larger banks in neighboring cities, are probably the most effective means of affording satisfactory banking service to communities under 5000 population.

It was further urged, with obvious equity, that national banks should be allowed to operate branch banks upon the same basis as their competitors in state systems, thus rendering them justice and eliminating any inclination to leave the national for the state charter for that reason.

The foregoing facts show clearly that whether we will or not, changes are taking place in the field in which banking works that create problems bankers must meet. We must bear in mind, however, that changes in the banking world are not always accepted with the same equanimity by the public as are the changes in the field of commerce and the fear of monopolistic control of our finances is as old as the country itself. It is not surprising, therefore, that we hear the question raised outside as well as inside banking as to whether the changes now going on in our banking structure constitute the looming of a monopolistic menace not only to the individual unit banker, but to general business as well. While I do not think there presently exists any such danger, these questions cannot be ignored.

If changes are developing in banking which cause public suspicions, we bankers must guide those changes so that there shall be no impairment of public confidence in banking.

No Monopolies

IF we grant that a new integration is to take place in banking organizations, with perhaps increased size and power for some, we must also insist that the creation of monopolies, or even the appearance of such a centralization of financial power as to be able to exercise an undue influence over public or private finance or other lines of business, shall not take place. The public's right to the safeguards of open competition must be maintained.

If it should appear that individual initiative and opportunity are to suffer through too much centralization of banking power, either in respect to the right of business men to obtain the financial services they need from an open market or in respect to a fair chance for the individual unit bank to operate where there is economic justification for its services, we must recognize the right of the public to say "No" to that—and as good citizens bankers must also say "No."

Again, the guiding principle of any multiple form of banking organization must be, in respect to every community it touches, to serve the economic upbuilding of that community for its own sake. No system would be long tolerated whose local members worked, or were suspected as working, to draw economic strength from one place to enlarge the financial power of another. The local unit bank has always been part and parcel of the community where it lives—and no new system can last which does not make it a major principle of operating technique to serve, and not exploit, the communities into whose business lives it enters.

In a period of rapid evolutionary changes in business, such as banking is passing through, there is always the danger that selfish motives and in some cases stock manipulations may enter, and doubtless in the plans of the promoters of certain chains and groups these have been factors, but it is but fair to say that the group banking movement certainly did not originate with "Wall Street" or the "Money Power." On the contrary, it has resulted primarily from the economic distress of certain sections where the great number of bank failures had undermined public confidence to such an extent that even good banks found it difficult to maintain their proper position and deemed it advantageous to associate themselves with others in their territory for mutual protection. Other groups were formulated from a desire to protect their respective territories from undue outside domination and from a conviction that through the pooling of their financial resources

they could develop their own financial zone without undue reliance on the eastern money centers.

Give Credit for Proper Motives

COMPETITION in all branches of our business is daily becoming more keen. World conditions and our own policies have brought interest rates down to the lowest level in years. Between the depositor clamoring for interest on his balances and the large borrower dictating the rate he will pay the lot of the commercial banker everywhere but especially in the medium sized cities becomes an increasingly difficult one. In the distribution of securities, too, the competition is becoming more and more acute from the great financial centers and the opportunity for the interior banker to make profits on that branch of the business is constantly getting smaller. All of these tendencies are in large measure responsible for the creation of larger units and groups in certain sections, but in most instances the purpose of their sponsors is the decentralization of financial power away from New York rather than the creation of a monopoly.

I hold no brief for group or chain banking systems, nor am I advocating their extension, but I think it but fair to give their organizers credit for proper motives in the development of their business and I believe that we owe it to them to keep an open mind on the subject.

Certain it is that we cannot stem the tide of economic events by passing hostile resolutions or by mere appeals for still more legislation.

We must also give serious consideration to the social problems that are involved in these developments and must take cognizance of what the public is saying on this new era of banking development. For public opinion cannot safely be ignored by any business, least of all by banking, which is admittedly semi-public in character.

It is proper that we should continue to do everything we can for the protection of the independent banker, but would it not be better for us to face the realities of the situation and admit that economic tendencies are toward at least a moderate extension of the multiple banking system?

So far as the group banking development is concerned, I do not feel that radical legislation of any kind is called for at this time. Neither a forcible effort to stop by national legislation this new phase of banking from developing nor any special efforts to hasten its progress would seem advisable.

Further time and opportunity should be given to study these developments and observe the results so that we may really know what we want and be sure

that the good features may be preserved and the evils corrected when legislation is ultimately passed.

Conservatism No Justification

BANKERS are by training opposed to radical changes. This does not justify us, however, in hiding our heads in the sand in ostrichlike fashion and to pretend not to see the changes which are going on all around us. Banking evolution is taking place whether we will or not and if the public welfare seems to demand it, we should not hesitate to modify our previous position.

Three times in recent years has this Association adopted vigorous resolutions condemning branch banking in any form. And yet, during all these years economic forces have been running the other way and branch banking has grown at a rapid pace.

Shall we go on and for selfish reasons attempt to block natural economic forces, or shall we frankly admit that conditions have changed and that some modification of our attitude toward branch banking is justified?

Do not misunderstand me. I would not commit this Association to any fixed program at this time, for it would be utterly impossible for all of our members to lay aside, suddenly, their many different opinions and interests and unite on a fixed branch banking policy or rally to the support of any particular new law looking toward that end.

Nor would I, if I could, persuade the members of the American Bankers Association to approve the "trade-area branch banking" proposal which would overstep states rights and create new problems and jealousies between our different classes of banks. I would not even go so far as to suggest advocacy of state-wide branch banking except that I believe that in all fairness to national banks they should be given exactly the same privileges accorded state banks in states where state-wide branch banking is already permitted.

It is not at all necessary to advocate any revolutionary changes in our banking system to adjust ourselves to the changed conditions but, on the other hand, we should admit that we cannot adhere to the rigid policy the Association has adopted in the past and should recognize that some extension of branch bank privileges within such restricted territorial limits as experience has proved would be economically sound and will inevitably come.

It is not for me to suggest just what position the American Bankers Association may wish to take in dealing with this problem. Nor do I see how we could hope to get absolute unity of opinion on that subject as long as we have national banks and state banks, commercial banks, savings banks and trust companies, large banks and small banks, city banks and country banks, banks which can thoroughly well serve their community as independent unit banks from a single banking house, and banks, on the other hand, whose business clientele can best be served only with one or more branches.

However, while there is this inherent and desirable diversity in banking, there is at the same time a clear-cut unity of purpose running through all banks, and that is to render sound, efficient, profitable service to the public. No matter under what form of institutional organization banks may operate they all exist for that one purpose, even though achieved through various channels.

The American public on the other hand is primarily interested in the continued safety of banks and if too rigid an anti-branch bank policy stands in the way of the best interests of banking and of public welfare, then let us not hesitate to admit that the tendency of the times and the evolution of American business call for some realignment of our views and some modification of our previous attitude on the subject.

The Drift Toward Confiscation

(*Continued from page* 280)

ings. In the last decade the railways have paid taxes in the amount of three and one-half billions of dollars, which was one billion dollars more than they would have paid had the ratio of taxes to gross earnings remained the same as it was in 1920.

Absorbed by Tax Requirements

IN 1929 the railways handled ninety-seven billion ton-miles of freight and seven billion passenger miles, the net revenue from which was wholly absorbed by tax requirements. The railways in the United States are paying almost one-fourth of their net earnings in taxes. In the United States the railways are paying close to 6½ per cent of their gross earnings to the Government. In Canada they pay less than 2 per cent. If our railways paid only on the Canadian basis with relation to gross earnings, our railway taxes would be reduced by more than $250,000,00 per annum.

Speaking on this subject on December 5, 1928, the Interstate Commerce Commission said:

"In 1924 and 1925, the Great Northern paid more taxes on its approximately 8250 miles of railroad than did all of the Canadian railroads on their approximately 40,000 miles. In 1924, the Great Northern, at the Canadian tax rate per mile, could have reduced substantially all its rates on all commodities and preserved its then net revenues. At the Canadian tax rate per mile, the Great Northern's average annual taxes for the three years 1923-25 would have been reduced from $9,280,137 to $1,623,706, and that carrier in 1924 could have reduced its wheat rates 67 per cent, or its rates on all grains 47 per cent, or its rates on all revenue freight 9 per cent, and maintained existing revenues. During the three-year period mentioned, the average annual tax saving (on the Canadian basis) would have exceeded the entire freight reduction that would have resulted from the application of the Canadian basis to the Great Northern in 1927. In 1925 the railway tax accruals of the Canadian National and Canadian Pacific were $224.39 per mile, and of the Great Northern $1,189.27 per mile. The roads in the Western District, if given the Canadian National subsidy and the Canadian tax rate per mile, would have received in 1924, $11,293,314 more revenue than they did receive for transporting all products of agriculture and animals and products of agriculture and could, from the difference in taxes alone, have reduced more than 20 per cent the rates on such traffic. They could have reduced rates on all commodities 25 per cent and still have left $53,175,730 more than their actual net revenue; or could have carried free all products of agriculture, except milled products and livestock, and been $15,000,000 better off than they actually were. In 1926 the taxes of all railroads in the United States, if reduced from their average of $1,591 per mile to the average Canadian basis of $267 per mile, would have been reduced in the grand total of $330,000,000; and under the Canadian policy of subsidy and taxes, the Class I railroads in the United States, during the period from 1923 to 1927, could have handled free all grain, flour meal and livestock and had left $403,332,826 more revenue than they actually received; a situation also true to the extent of $139,825,569 additional revenue for the Western roads during that period."

I have tried to give a picture of the processes that have been going on through legislative and administrative channels which, if continued, are likely to have a very serious and far-reaching effect upon the prosperity of the country. First, these processes constitute a very unfortunate threat to the safety of railroad securities. If these securities are menaced, then the future of railroad credit is in jeopardy. With the future of railroad credit in jeopardy, railroads must indulge in policies of drastic retrenchments, not only in the purchase of materials and supplies but in the employment of labor. The railroads, therefore, have a right to appeal to bankers and the American public, not only in the interest of their own security holders and the welfare of their own properties, but in the interests of the greater public good. The ultimate cost to the entire industrial structure if the present tendency continues will be enormous, not only in the deflation of honest investments in railroad securities and not only in the loss to business generally by a policy of drastic curtailment upon the part of the railroads, but also a loss to the shippers themselves that will make any small margin of difference in the level of rates sink into insignificance. A very small difference in the level of freight rates spells prosperity or disaster to the carriers. Failure of carriers to afford adequate and efficient transporta-

tion means enormous losses to shippers. I have no better authority upon this subject than President Hoover, who, when Secretary of Commerce, said in referring to the enormous car shortages that existed at and prior to the war, that this shortage was costing the shippers of America in excess of $1,000,000,000 per annum.

In brief, the processes which I have attempted to enumerate may be defined as follows:

A constant nibbling away at the rates by rate reductions, beginning with the year 1921 and culminating in the present year in reductions in rates on grain and grain products of a very drastic character.

While these reductions have been and are going on, the railroads have been and are losing considerable quantities of freight through the use of the taxpayers' money and the power and influence of the Government in diverting traffic from the railroads to other forms of subsidized transportation.

While these processes of rate reductions and the diversion of traffic by subsidized transportation have been taking place, the carriers' expenses have been increased largely through agencies operating under governmental law, till today the rates of compensation are greater than the highest point of war wages, and our taxes are at the highest level in the history of American railroad administration and are increasing by leaps and bounds each passing year.

Little Room for Economy

NO industry can have its income constantly reduced and its expenses constantly increased without ultimately meeting disaster. In a measure, it can overcome these ill effects by greater economies and greater efficiency and an increase in its volume of business. These economies and this efficiency the railroads have been practicing in a most intensive and intelligent way, but there is little left in that direction at the present moment. Further economies and efficiencies in any reasonable proportion to the reduction in revenues that is taking place will not be sufficient to meet the situation.

The loss of passenger traffic due to improved highways is a subject familiar to all and it needs no argument to demonstrate the statement contained in the brief of the Western railroads that they are sustaining serious loss by reason of subsidized highways and waterways, which materially affects their volume of traffic.

I realize that this may not be a pleasant picture to paint for those to whom we look for the financing of our properties, but I also believe that absolute earnestness and integrity is the only policy that in the long run will maintain the confidence of investors. I am also satisfied that if intelligent and courageous action is taken at this time and if this whittling away of rates is terminated, if the Government will require other competing forms of transportation to pay their own way, if the burdens of an excessive system of transportation as now imposed upon the railroads can be in some fair way lifted, that the security of railroad investments need not be questioned. And, over and above and beyond this, a great step forward will be taken looking to the general prosperity of all our people.

I am not an alarmist; I have faith in the justice of the American people when they know the facts, but I cannot help at the present moment from being somewhat apprehensive not only as to the future welfare of the railroads themselves, but as to the far-reaching and disastrous effect that further curtailment of their earnings may have upon the prosperity of the nation as a whole. In the light of this situation, I have presumed to present the facts as they most certainly exist at the present moment and to beseech earnest attention to the subject, for I feel with confidence that if bankers will give these problems that same energy and great ability that they give to

the immediate administration of their own affairs, we will pass successfully through the present emergency, the integrity of railroad investments will be preserved, the prosperity of the country materially aided by making it possible for the railroads to prosper, and as a result great and helpful nation-wide service will be rendered in the interests of the prosperity of all classes of our people and all sections of our common country.

President Hoover in September, 1924, when he was Secretary of Commerce, made this statement:

"Either we are to remain on the road of individual initiative, enterprise and opportunity, regulated by law, on which American institutions have so far progressed, or we are to turn down the road which leads through nationalization of utilities to the ultimate absorption into government of all industry and labor."

My hope for the future of America is that the President will secure sufficient support to enable him to translate into practical results the philosophy contained in that admirable and statesmanlike utterance.

The Period of Adjustment

(*Continued from page* 267)

wheels of trade and industry are picking up speed. The rapidity of recovery, to some extent, is in the hands of the bankers who control the flow of credit. The farmer whose income has been impaired by the drought; the manufacturer whose production costs are out of line due to obsolete and inefficient machinery; the renter who wants to become independent of the landlord; the property owner whose buildings are in need of repair; the merchant whose profits can be increased by the improvement of the physical equipment of his store—all of these need encouragement and with that encouragement should start a train of constructive expenditures which should help to correct the unemployment situation, and restore the income of the nation. It should be the primary task of the banker to lend every encouragement to activities of this nature, and to work out practical programs of support. Yet in this it is the bounden duty of the commercial banker to avoid the mistake of making capital loans at the expense of banking liquidity. Idle dollars are no more to be desired than idle men but unwise credit extensions can do as much harm as good.

Idle men and idle dollars we have had in our present recession, but not due to banking inefficiency. I say to you that whenever a condition arises in this country in which there is unemployment of both labor and money, it becomes a challenge to the business men of America, and I have implicit faith in the ingenuity of American business to solve satisfactorily the problem of unemployment, just as other momentous economic issues have been met and conquered.

Natural Functioning of Economic Forces

IT is well to remember that it is both unwise and futile to try to thwart the natural functioning of our economic forces by legislative action. Rather should we seek to give these forces their full play by lessening handicaps and restraints.

One of the formidable restraints to business progress is mounting taxation. All taxes are too high. Expenditures for public purposes seem everywhere to be increasing at a rate that is discouraging to enterprise. Besides, there is a growing belief that tax systems do not spread the cost equitably. Too often the levying of taxes is in incompetent hands. Every banker everywhere should study taxes and give the best that is in him and in his organization to the end that public money is justly and fairly raised and wisely and honestly expended.

Another restraint I would emphasize is the Sherman anti-trust law. Should it not be clarified, modified or liberalized? We know it was designed primarily for conditions of years ago that no longer apply. In its present form and as construed by the United States Supreme Court does it not stifle initiative in business and place a handicap on co-

operation? On the one hand, we seek to organize cooperatives, and on the other hand frequently find they meet definite legal obstacles because of the uncertainty as to whether they would be held to be in undue or unreasonable restraint of trade. The way to progressive success in all commercial and industrial effort is through the constant introduction of new economies, but against the institution of these economies there is often the menace of Sherman law interpretations. Such a system certainly never was intended to be as it is today. Do not changing times call for a careful revision?

As we seek to free ourselves of these encumbrances and increase our efficiency; as we strive to serve business in a bigger and better way, let us work out our problems together, remembering always that neither great capital nor numerically great numbers will long prevail unless we are economically right. Let us remember, too, that Optimism, Energy and Vision form an unbeatable triumvirate in the business and banking world.

In the forefront of our thinking should be a lively consciousness of the fact that we have moral and social responsibilities as well as financial responsibilities. Good citizenship adds to dividends and to safety.

I want to recall to your memory a bit of advice from one of the greatest bankers of all times. The words of J. Pierpont Morgan, the elder, seem to me to be calling to us over the intervening years and to have special application in these times and in all times. He said in effect: Always be a bull on the United States.

If he had reason to be optimistic many years ago when our country was then comparatively poor, how much greater reason have we of 1930 to look down the years with shining eyes!

The World in Transition

(*Continued from page* 283)

tions of the mistakes of previous generations.

A Great Opportunity

WITH all of the earth peopled as it is today and with the means which have been developed by man for transportation and intercommunication, there would now seem an opportunity for education to take a more important part in the progress of the world. This can only occur, however, when those who have had greater opportunity for understanding are willing to give more of their attention to their duties as citizens and spread among the groups of men who are just entering into the light of education the knowledge that has been vouchsafed them.

If we have not yet learned that no knowledge which we may possess individually can help solve world problems if we do not share such knowledge, we cannot complain if we are carried along in a maelstrom of unfortunate conditions brought down upon our heads by the misguided and uncontrolled desires of multitudes.

It is time for men to stop and think. And as we think we must be willing to exercise opinions thus formed and not do the easy thing, which is to let them die. This means effort, conscientious and determined effort. At first it may mean sacrifice, as well, until the sense of its values replaces former desires which may have to be given up. We will find also that we are increasing our own education enormously, which is equally necessary if we would be good citizens.

We must down hatreds. No man can consistently demand peace among nations who has hatred in his heart for his neighbors, and neither should such a man be supported in his efforts to win his way by false statement.

The position of the banker in every community gives him a marvelous opportunity to be helpful to his neighbors.

Ten Ways to Cooperate

(Continued from page 291)

paring special forms of checks at the bank's expense had grown up in our community; and now we require the customer to carry that expense, except where his balance exceeds a net average of $1,000.

(5) One dollar minimum charge on small loans:

We have seen a number of calculations figuring the actual cost of handling a loan and we feel that $1 minimum discount on all loans that would not figure that much at our regular rates is a fair service charge, as it does not yield the bank any real profit, and these loans are more in the nature of accommodations than real business transactions, from a bank's point of view. Our regional clearinghouse association has put into effect all of the above mentioned charges. Other changes that have been suggested by the Louisiana Bankers Association committee are as follows:

Collection Charge

(6) Charge on cost of collecting out-of-town checks:

From all information that I can gather this is a most worthwhile charge, and it is certainly a fair one. However, in the process of educating all of the bankers in our district we desire to proceed piecemeal and take up first the question of having our customers reimburse the banks for exchange that we have to pay in collecting checks that we handle for them, and later get to the question of a float charge. At present we are stumped on just how to prepare a rule covering this exchange charge on out-of-town checks for customers, the reason being that none of our banks pays interest on demand deposits and we do not want to be faced with the need of doing so, therefore we want to draft our rule so as to get away from applying this charge to customers that maintain really worthwhile accounts and who might fairly demand interest on their balances should we assess such costs against them.

We first thought of fixing a minimum average balance as the dividing line and thought of setting as that figure about $5,000. However, in studying the matter over I found one account at the Rapides Bank maintaining a larger balance, averaging between $7,000 and $10,000, which maintains a net balance, in reality an overdraft, of around that amount. As yet our bankers as a whole are not familiar with account analysis and therefore we do not know just how to go ahead with this charge.

Three Other Projects

(7) Exchange to be charged for bank drafts:

In Alexandria we have been doing this for some years and feel that it is an entirely proper charge for that service.

(8) Limitation of interest on deposits and uniformity of methods:

In Alexandria we reduced the interest rate on deposits ½ of 1 per cent, some years ago and in the Rapides Bank we lost $5,000 of volume and had on deposit at interest well over $1,000,000 at that time, so it can be seen that the result was most satisfactory.

(9) Financial statement from all borrowers of sums in excess of $500:

No action has been taken on this jointly in our section, but both of the banks with which I am connected have been making this requirement for some time and we do not know of any business that we have lost to our competitors by requiring that our customers keep us informed as to their condition. In fact, in the Alexandria Bank when I went in the first of April this year this requirement had not been in effect, and I immediately began asking for statements. I was later informed by the active head of a suburban bank in our city that he had been soliciting the account of one of our customers whose place of business was near his office for some time and he thought he was making some

headway in that solicitation, but that after I required the customer to give us a financial statement the customer told him that our requirements along this line were so businesslike that he had a much better opinion of our management and would no longer consider a change. It is my personal belief that a bank customer, properly approached, wants his account handled on a businesslike basis and that there is no greater advertisement that a bank can have in obtaining deposits than the knowledge through the community generally that that bank is strict in making loans and requires its customers to do business with it on a sound basis.

Catching Duplicators

(10) The establishment of credit bureaus for interchange of information to forestall duplicate loans. We have put this into effect in a modified form and hope to improve on it later. This subject strikes me as being one of the most important and most fundamental of the rules suggested, because while not increasing revenues it is certainly valuable in decreasing losses. The writer worked some ten years ago as a credit investigator in a large New York bank and found the system in effect there at that time to be about as follows:

A representative of one bank would call on the credit department of another bank and ask about a name, giving the reasons for his inquiry, which might be either a mutual account, checking for commercial paper purposes, an inquiry, or some other legitimate reason, giving the employee of the bank inquired of what information the inquiring bank had on the subject. The banker inquired of would then give a very full story as to the subject of the inquiry, covering the length of their relationship with the subject, the facts they had regarding the management, general reputation and financial standing of the subject, and the facts regarding their relationship with the subject, including the line of credit extended, how the line was used, how obligations were met, and the sort of balances carried, and such other data as might be pertinent.

Our plan throughout our district now is that each bank has agreed to exchange such information with each other bank and while we do not have a central bureau through which various reports are made, we do have a spirit of cooperation which is accomplishing and will continue to accomplish a great deal along this line.

Banks Must Profit

(Continued from page 293)

The total income of that bank last year from service and float charges, exchange, safekeeping, escrows, mortgage loan commissions and other miscellaneous earnings was over 10 per cent on invested capital. The question which seems to arise in every banker's mind is how to approach the customer and how to explain the proposition to him. We have advertised so widely for accounts, have continually suggested the use of the check as a receipt, and have literally thrust our services on our depositors, and now our problem is—how shall we undo the wrong and still retain the right?

I like to compare a bank to a custom smelter where miners may bring their ore to have it smelted. As it is dumped into the bunkers it is assayed for values,—some of it is low grade and some high grade,—and the miner received credit according to the values present, less the cost of smelting, which cost varies with each type of ore. To be sure the smelterman knows what these costs are. He knows that quantity of ore does not count—"quality" is the watchword. He realizes, and so does the miner, because he has been educated that way, that the only value to commerce lies in the metal after the ore has been refined.

Of course, the smelterman makes a profit out of the smelting process, and also expects to be paid properly for safeguarding the metal while he seeks

a desirable market and for assuming the risks of that market. This latter step in the process may be compared to the loan and investment department of a bank. The income from loans repays the banker for the work of investing and for the risks therein involved, plus (sometimes) an amount large enough to absorb the losses involved in handling the lower grade deposit which slips by without assay, and to pay a profit to the stockholders who are carrying on under a banker's double liability.

Customer's View

I HAVE effectively used this analogy in talking to a customer about his account. He sees nothing but value in his deposit. He gave value for it. He does not realize the work which falls on the banker to get real usable value out of it. He does not know until he is told that some deposits are low grade and some high grade. Float, clearings, exchange, etc., are terms unknown to him. It must be explained to him that an account with more activity than the balances justify, results in a loss to the bank. In other words, until the banker assays each depositor's accounts and explains that assay to the depositor only the banker is to blame if he is handling lower grade accounts at a loss.

Unless some assaying is done and the lower grade depositor is required to pay his way, is it not proper to assume that the high grade depositor has cause for complaint? The profit from handling his account is being used to absorb the loss on the lower grade account, and the banker finds he cannot render the best grade of service or, if he does, his bank may be weakened by insufficient income to the point where Mr. Good Depositor seeks stronger banking connections and the poor stockholder does without his dividend or, sad to tell, has an opportunity to partake of an "Irish dividend" to cover losses.

Is the picture painted too dark? Perhaps so, but if one has ever tried to throw a stone over a stream he does not put just enough force behind it barely to reach the other side. No! he makes sure to reach it, even though the force expended exceeded the minimum requirements. So it is with this problem. It should not be underestimated. Put enough energy and thought behind it to get across the first time.

I do not favor the elimination of any legitimate business from a bank's books. On the contrary, I am merely seeking to separate the good from the inferior and to devise a method for building up the latter so that by increased balances, decreased activity, or by equitable service charges, it may pay its way and the banking profession may render a greater measure of service to all concerned.

The Cycle of Prosperity

(Continued from page 275)

suddenness; it has usually come when the spirit of pessimism was almost at its worst. It came in 1922 even before the tangle of "frozen credits" had been unraveled, and we are not confronted with the "frozen-credit" problem in 1930.

We have our strong and unshaken banking system. The useful powers of our Federal reserve have been strengthened by the economic readjustment. Our position as creditor country of the world has been reinforced. With all the sweeping cut in export and import valuations, resulting both from the fall in prices and the world-wide economic reaction, our surplus of exports over imports is running larger than in any year since 1922. Our national reserve of gold fills up by the inflow from Southern and far Eastern continents as fast as it is reduced by outflow to Europe. But, possibly more important than any of these powerful elements of economic strength, our producers, our financiers and the American public as a whole, are facing their financial problems soberly and intelligently, setling down to hard work.

One Credit Bureau Record

(*Continued from page* 294)

been given to the manner of reducing losses coming from duplicate lending in banks. You are all aware of the fact that, during the past ten years, installment selling has proceeded at a terrific rate, and many of those who borrow from banks have pledged their entire incomes for luxuries, to others than banks. It is quite important that a bank be on its guard in lending, so that the money is loaned to someone who can pay the principal back at the agreed time. In connection with one or more of the credit bureaus in operation in my state, the manager makes periodic visits to the county offices and ascertains the names of all those who have executed chattel mortgages, and a list of all the contract sales that have been recorded; and, finally, a list of the judgments that have been entered. With this information before them, the member banks are enabled to find out whether any applicant for a loan is included in any of the above lists, or if any of his present borrowers are also in the lists. By giving the monthly report of the bureau manager a close check, he is enabled to guard his bank against lending its money to the poorer credit risks.

Not Cure But Prevention

It seems, however, that the present plan of most of the bureaus, to return to members thereof a list only of those who have been found to be duplicators, is putting the cart before the horse. The time to stop the duplication is before the loan is made, and we earnestly recommend that a list of all the borrowers in the bureau be submitted to each bank periodically, with proper identification of those who are borrowers in more than one bank; so that when an application comes in, a quick glance at the list will determine whether or not the applicant is already a borrower.

One of the greatest deterrents to the development of credit bureaus seems to be an unreasoning fear that one's competitor will take an undue advantage of the information, but this is not borne out in fact. Testimonials can be had from all over this country, from bankers who are using the credit bureau, that the sense of fair play and sportsmanship keeps in check any tendency to abuse the information. They have found that, when duplicators are discovered, they can discuss with the other banker involved, the matter of their joint concern, with the result that one or the other takes over the line, or each one maintains his own line, but obtains adequate and proper security; and the result has been a general improvement in the note case so far as it affects these duplicators.

Another weakness at the present time is that many of the bureaus are organized in purely political areas, and they have no way of ascertaining the overlapping of credits in the adjacent areas which do not have bureaus. It is my hope that, eventually, the entire state will be covered by credit bureaus, and that there then can be developed district credit bureaus, under the supervision of the state, and centered around a resident bank examiner, so that the overlapping of one bureau into the next can be ascertained and checked; and that there will finally be developed a central state credit bureau.

No effort on the part of individual banks in a bureau has ever so fully succeeded in coordinating them as has this movement. The closer relationship between bankers that has been brought about has not confined their activity to the exchange of credit information alone. It has had its effect on service charges, on the standardization of rates of interest, and of bank practices, and it will be one of the means of the ultimate development of the regional clearinghouse, an integral part of which will always be the credit bureau.

An Indirect Share in Reserve Bank Profits

(Continued from page 301)

Federal reserve banks is more important than the deposits of members. And it is very pertinent to point out that the twelve banks now have a combined surplus approaching $300,000,000, new money so to speak, which ought to be as effective as the same amount of deposits.

Another logical use to which excess Federal reserve bank earnings might be put is toward defraying the cost of bank examinations. I fail to see any difference in the profit and loss account of a member bank, whether it receives $200 extra dividends, or saves that amount for an examination. There is this difference, however. One we may get and the other may be denied us.

Present System Unfair

BUT however we may arrive at a better division of Federal reserve bank earnings, I think we can all agree that the present law giving such earnings to the Government is unfair and unwarranted. I suppose we might define a franchise tax as a tax paid by a profit making corporation by its owners to the state for the privilege of doing business. The greater the earnings the larger the tax. But here we have a proposition under which the owners of the corporation are limited to 6 per cent, and the state takes all the rest. If the owners object and demand a greater share of profits, they are put off with the answer that it is not intended that the corporation (in this case the Federal reserve banks) shall be profit making institutions. Here is a nice question of logic.

Pertinent to this angle of the question is the value of the service rendered to the Government by the Federal reserve banks as fiscal agents. Let us not compare that service with what national banks do in paying interest on government money. Let us rather compare it with the cost of the old sub-treasury system.

I should like to explode one theory that is frequently advanced: that increased dividend payments will make membership in the Federal Reserve System more attractive. It is a pleasant theory to contemplate and sounds convincing, but in my judgment it has no practical weight. Using a $100,000 bank unit as an example, such a bank now receives a dividend of $180 per annum. How "attractive" would $120 more be to such an institution, which amount would result from an increase of the dividend rate to 10 per cent? As I see it, the Federal Reserve System suffers under one fundamental weakness, our dual banking system to which I have referred. Corrections have been made and are being made in the laws affecting national banks to give them opportunities equaling more nearly those enjoyed by competing state banks. But there still remains one predominant advantage to the state system: that of calculating reserves on a more liberal basis. Change state bank acts in this respect and less need be said about making the Federal Reserve System more attractive.

And in sober fact does the system need more members, that is to say, the membership of thousands of smaller state banks principally outside of the fifty reserve cities? I think not. Privately I entertain the unorthodox belief that the kind of business a bank does—for example receiving deposits of other banks and making commercial and bank loans—should determine compulsory membership in a central reserve system rather than that the source of the charter should govern such membership.

Farm Stabilization

The committee on orderly farm marketing of the State Bank Division states that no stabilization efforts can save the farmer who raises a single crop and depends on a profitable sale at harvest for living necessities.

Central Problems in Finance

(*Continued from page* 297)

and industry and depending upon general prosperity for their own satisfactory position, could undertake a study of this question that should prove of tremendous value to the commerce of the United States and to the people who depend upon such commerce."

Detrimental Politics

THERE should be no necessity for business lobbying before legislative bodies of states and the nation. It is very popular for office seekers to go before the people seeking votes on a multiplicity of promises, the majority of which would tend to affect our economic structure, and about which proposals there cannot be a great deal of sincerity. Such promises are expounded with great oratory, with the result that the voters are aroused and the office seeker finds himself elected on a program, by which he is committed to a hodge-podge of impossibilities. Unless such proposals are arrested by pressure of business, through lobbying, the damage is done, besides bringing into play legislative compromises and trades detrimental to all.

I am very much inclined to the opinion that our standard of living is too high. In this age of fast and efficient methods of transportation and communication, all nations are too near together to maintain successfully for any appreciable length of time any material difference in the standards of living.

Our tariff wall and immigration policy is a masterly effort to maintain our high standard of living against the rest of the world, and I think we are wrong on both. We are producing a large surplus of agricultural products and manufactured articles of all kinds from an abundance of raw materials, and if we do not buy we cannot expect to sell. If our tariff wall tends to reduce our foreign trade, as I think it will, then we need more people to consume our surplus. Yet, we further restrict immigration and at the same time continue to reclaim arid lands at an enormous expenditure of capital annually.

Business Leadership

THE business leaders of this country have a great responsibility. They are the trustees of the greatest heritage of mankind down to this day and if they will prove true to their responsibility they will stand stanchly for the maintenance of sound fundamentals and so conduct their own activities as to carry convictions for their proposals and demands.

Anxiety for present gain must not be traded for a future unbalanced condition. Exorbitant profits must not be permitted to supersede fundamental principles inimical to the well being and contentment of the nation's people.

The present trend to government in business is socialistic in application and sure to produce distress unless speedily and successfully checked. Subsidies of any kind are absolutely unsound, tending to favor one class as against another, destroying the reward of initiative and killing the incentive to progress. The Government's position should be that of an umpire enforcing proper rules and regulations to see that there is fair play, but it should not otherwise participate in the game.

I have entertained an impression for some years that business men and bankers, as a class, are too prone to timidity, too disinclined to take a definite stand on political issues, apparently fearing unpopularity with customers. My point is—bankers' and business men's attitude should be that they have opinions on questions of proposed legislation and should express them.

My analysis leads me to believe that all men have opinions, but are not leaders until they express them. Expression

of opinions on legislative proposals or any contemplated act affecting our economic structure is just as much our responsibility to the public as is our responsibility to our stockholders for a profit on their investment.

There must be retained in this country opportunity and reward for initiative, which keeps before all classes an incentive for progress. That is our insurance of the continuance of a republican form of government.

Well-Managed Unit Banks Can Stand Alone

(Continued from page 300)

to conclude in fact that the Comptroller means to say bankers are not intelligent enough to learn?

No! Banking evils are not to be cured by any revolutionary procedure which completely changes banking systems. They are rather to be eliminated by the evolution of management ability through management education. We must hold fast to the fundamentals in this discussion. Regardless of the system of banking, we must have bankers with management ability. That is the paramount consideration. It represents the real goal toward which our endeavors may be profitably directed and it merits the most extensive and comprehensive educational campaigns which we can devise and promote.

In this connection, I recommend the importance of furthering our studies of bank management. The results of a questionnaire on chain store bank accounts revealed the incredible fact that 50 per cent of the banks did not know their costs. Without a complete knowledge of costs no bank can hope to calculate profits in individual accounts on anything but an empirical basis. And yet, what concrete assistance have we given the country banker which will enable him actually to compute his costs with a reasonable degree of accuracy? True, we have given him average costs which he might use in the absence of something more definite. However, I am inclined to believe these average figures may give the banker a false impression that he is making a profit, whereas he may actually be operating at a loss. Ought we not develop forms, with the proper instructions, by which a banker can accurately figure his costs on checking accounts, small loans, and other phases of operation?

Where Some Units Err

WHILE I have sought to defend the unit banker, I should like also to indict him for his shortcomings, and, if possible, to point the way to further banking progress. The unsuccessful unit banker has too frequently lacked a definite investment program. He has acted without the facts, and guessed at sound methods of operation. He has entered each new year hoping that somehow profits would be adequate and the bank would enjoy smooth sailing. His methods of conducting a bank have been typical of an institution in a neighboring state in which 40 per cent of the total local loans were concentrated in twelve lines. In other words, 40 per cent of the local loans were subject to the hazards of but twelve individuals or enterprises. What was even more unfortunate, about half of the loan lines were to the same type of business. The loans became frozen, with large charge-off anticipations affecting at least 20 per cent of the total dollars of local loans. The bank had to be recapitalized with a large loss.

There is also the case of a bank which had 64 per cent of its local loans secured by non-marketable local collateral and real estate mortgages and equities. When we have mismanagement of this kind, we almost invariably find, also, an overextension of the total amount of local loans, with a small secondary reserve. The customary result follows: a withdrawal of deposits; the liquid assets vanish; and the bank is precipitated into failure because of frozen assets.

Mismanagement takes a variety of forms. But in none perhaps is it more frequently found than in the manner in which too many unit bankers have invested their funds. One direct result of an unsound conversion of the bank's funds is an abnormally high loss ratio. In a certain state 276 banks had total losses of more than 12 per cent of the total income. In another state 992 banks showed losses equal to more than 10 per cent of the gross income, and yet in 257 other banks in that same state the losses were less than 4½ per cent of the gross earnings. In eight banks they were only 3 per cent of the gross earnings. The fact that the figure varies so widely indicates that it is a highly controllable item—in fact, it is one of the largest variables when accounting for differences between profitable banks and those that are much less profitable.

The loss ratio is usually higher in banks which pay a high rate of interest on deposits. In the effort to secure a sufficiently high return to permit them to continue in this practice, such banks inevitably seek higher rates on their loans and seemingly ignore the fact that they must sacrifice safety to yield. I recall the case of a high-interest bank in a manufacturing city, which, in order to make larger returns, began to loan money on sheep in Montana despite the fact that the bank had absolutely no knowledge of the sheep business. They paid the penalty in a series of heavy losses on this business.

While it is bad management to make loans in a business with which the banker is unfamiliar, and no bank officer should make a loan in connection with a proposition he cannot fully understand; it is also unwise to concentrate loans in a particular industry, regardless of how well it is understood. A bank in an oil town having a surplus of loanable funds adopted a policy of loaning to oil companies in other places on the theory that the officers were familiar with the oil business. The result was that this bank carried too heavy a load of oil accounts and got into difficulty when the oil business suffered from depression. Good management insists upon diversification, both as to type of business and location. It is a violation of this primary rule that has brought ruin to so many unit banks.

Too Much Home Town

IN too many cases, bankers have felt that they simply must take care of their local communities—at least of the borrowing part of the community. A thriving concern in a small middle western town required more capital than the local bank could be expected to supply. But instead of allowing this company to go out of town for the extra funds which were needed, the bank attempted to care for all of the customer's banking requirements. Loans to officials of the company personally were in reality for use by the company. Altogether, the bank loaned four or five times the legal limit. This was a flagrant infraction of good management principles which proved a most costly experience to the bank.

There are recorded instances where banks have had 80 per cent of their resources employed in local loans, leaving less than 20 per cent in reserves. One bank had 75 per cent of its assets tied up in the form of real estate loans, holdings of real estate bonds, and loans secured by real estate securities as collateral. It was found that only 5 per cent of this bank's income was derived from ordinary banking operations. The bank's difficulties were all traceable to its failure to observe the first principles of diversification. Another bank had invested a large portion of its funds in bonds, perhaps in an effort to avoid a preponderance of local loans in its assets. However, the bonds were of long maturities and a subsequent shrinkage in bond prices saddled a loss of $125,000 on the bank.

What Must Be Done

WHETHER we operate unit banks, branches, or groups, we must improve our management. We need to fix

interest rates scientifically, and this applies both to rates charged and rates paid. We must eliminate excess loans granted in violation of the banking laws and good common sense. We must avoid capital loans. We must increase our knowledge of costs. We must make each account pay its way instead of carrying seven out of ten checking accounts and 40 per cent to 60 per cent of our savings accounts at a loss. We must increase employee efficiency and base salaries on studies of the volume of work performed.

Some bankers may feel that this is a very pretentious program. I believe it is entirely feasible—and I am convinced of its soundness because I know of many unit banks which already measure well up to sound management standards.

I believe:

First—That we shall witness a continuance of many independent unit banks, with the development of larger sized units.

Second—That we may advocate the development of local branch banking.

Third—That we shall benefit by the proper extension of group banking over wide areas, with authority vested in the proper officials to examine and supervise all holding companies, security companies, or investment trusts in which either depositors' or stockholders' money may be invested.

Finally, I am convinced that the importance of scientific bank management must be recognized in the operation of every bank in America. That is the crux of the matter. That is the challenge. How shall we answer it?

State Bank Division

(*Continued from page 285*)

such analysis and study of the various existing requirements that we may recommend for uniform practices by legislation or ruling requirements as to percentages of reserve as will coincide with the present nationwide practice of member banks of the Federal Reserve System.

"To maintain the high standard of living heretofore enjoyed by the people of the United States, agriculture and industry must be on a parity.

"Governmental bureaucracy, both national and state, is persistently fastening its tentacles upon the business and general welfare of our country and taxes thereby are being pyramided. The time has come when definite steps should be taken to rid all our governmental agencies of this undesirable and stifling encroachment so that personal initiative may retain the privileged position so essential to American life and its business as intended and assured by the Constitution of the United States."

Way to Use Bank Facts

(*Continued from page 290*)

agement apply to its operations the knowledge of its own business to the degree that it has preached and insisted every other business should apply to itself?

If this be granted, then we must concede that analysis will develop the facts on which management can determine and check its policies and judgment and with which it may analyze its results. Efficient and profitable bank management is based on a knowledge of what it is doing and analysis will determine the factors from which this knowledge may be derived.

Profits Fortify Banking

(*Continued from page 288*)

interest on these public funds to the various subdivisions of the state and the state to which they belonged. These vast sums of money were deliberately, knowingly and by statute, taken in effect from the private depositors of the banks without due process of law and used for the public benefit. Such a condition should not be permitted to continue and it cannot continue longer than the bankers of the country permit it. It is immoral and unworthy of bankers to tolerate, without protest, a condition that permits a discrimination of this character against the rank and file of the depositors of their banks and against the banks as well.

The National Bank Division

(Continued from page 295)

dress by saying that the question of sharing in reserve bank earnings was one that would be difficult to answer. "The more I have thought on the subject," he declared, "the more I am discouraged in any hope that we can find a simple, easy solution. The situation is complicated by many factors, particularly the difficulty in finding a common rule that will work equitably in all districts due to the fact that some of the Federal reserve banks now have earned surpluses equal to their subscribed capital, and others may have to wait as l ng as ten years before reaching the figure generally agreed upon as the amount to be set aside as surplus before making further disbursements."

The report of the Resolutions Committee, submitted by the chairman, Edgar L. Mattson, vice-president, Midland National Bank and Trust Company, Minneapolis, touched on the succession of trust powers, the work of the Special Committee on Section 5219, and included a memorial to the late William Cook Wilkinson of Charlotte, N. C.

"The National Bank Division," the report stated, "recognizes the force of the adverse decision of the United States Supreme Court in the Worcester County National Bank case. It shrouds in great uncertainty the succession of trust powers and appointments in consolidation of state banks and trust companies with national banks under the charters of the latter in each state in which the statute is not specific.

Continue Efforts

"THE success attained by the Division in its moderate effort last winter to secure enactment of definite statutes in several states encourages the belief that the quick, satisfactory and complete remedy lies in an appeal to the legislatures of all the states. Therefore, the Division requests its officers to continue their efforts to secure the adoption of sufficient amendments wherever uncertainty is found to exist."

A second resolution urged the adoption of legislation by Congress giving the Government supervision over national banks in voluntary liquidation. This would be in conformity with a recommendation made by Comptroller Pole in his last annual report to Congress. Copies of this resolution will be sent to the chairman of each Congressional committee dealing with bank legislation.

On the subject of taxation, Mr. Mattson spoke, explaining the viewpoint of the resolutions committee:

"No committee of the American Bankers Association has had more perplexing problems to meet than the committee that has to do with the question of national bank taxation, a problem that is important to all banks, national, state and trust companies. It has labored long on this problem and it has resisted the efforts of taxing commissioners to do away with the restrictions that are now affording protection to the national banks and other banks as well.

"It has met frequently, and during the last year came to an agreement with the tax commissioners upon a proposed bill, which is known now as the substitute Goodwin Bill. Whether or not this bill will pass no one can say. Inasmuch as it is of vital importance to this Division it is felt that it is proper to give some consideration to the work of that committee. It has made the report in a form covering the so-called Goodwin Bill, known as H.R. 12490, and it has asked the association to ratify its actions and authorizes it to continue along the line that it has been working and to support the bill with such changes or substitutions, if any, as such committee may deem desirable in the preservation, or such as may not prejudicially affect the equitable and non-discriminating taxation of national banks or their shares of stock.

Five Essentials

"IT is further provided that if new legislation is offered that the committee will not support it unless the proposed legislation embodies the following principles:

"1. That no more than a reasonable proportion of the net income of national banks be absorbed by taxation.

"2. That other financial institutions in competition therewith be taxed by the same method and at the same rate as national banks.

"3. That the aggregate burden of taxation of national banks, however imposed, shall be no greater, in proportion to their net income, than is the aggregate burden of taxation of mercantile, manufacturing and business corporations of a general character in proportion to their net income.

"4. That means be established by law by which discrimination in violation of the foregoing principles can be readily demonstrated.

"5. That the real estate of banks shall be separately taxed to the same extent, according to its value, as other real estate is taxed and that taxes paid on real estate shall be disregaraded in computing the relative tax burden on banks and on other property or business, except as a deduction from earnings or profits."

The resolution, as adopted by the Division, approved and confirmed the work of this committee.

The Journal and Your Directors

With the many new developments in banking, it is of the utmost importance that your directors have some means of information. The JOURNAL affords the *logical* means, with accuracy, authority and promptness. By means of our special Group-subscription plan, your bank may supply its board with the JOURNAL at trifling monthly expense. Can we tell you about it?

National Banks Seek Important Changes in Charter

(*Continued from page* 303)

surplus which such national bank has over and above the legal surplus requirements; and provided further that such securities or investment company shall be subject to examination by the Comptroller of the Currency."

We made one other general recommendation which is in conformity with the oft-repeated resolution passed by the National Bank Division:

"The committee makes the general recommendation, in conformity with the policy of the National Bank Division, that the privilege of issuing circulation by national banks be continued and that other Government bonds approved by the Treasury Department be made eligible to secure such circulation."

We can now come to another major cause that was suggested from various parts of the country. I assume one might probably imagine the geographical location where this particular thing originated. That was the restrictions upon branch banking privileges.

We appreciate the fact that a condition exists that cannot be ignored, that branch, chain and group banking is here in more or less substantial manner, that something will have to be done some day about it.

Parity With State Banks

WE do feel, as a committee, that national banks should be given the same privileges with reference to branch banking as is accorded to state banks. Both branches of Congress are conducting an investigation. Their figures are not available, their conclusions are not available and until sentiment has been crystallized more in the form of legislation, both state and Federal, we do not feel that we should make a definite recommendation.

The committee does not shirk its responsibility in this matter. We are ready and will be ready when, in the judgment of the committee, the time seems ripe to make such recommendations as will, in our opinion, strengthen the national banking system. We are not making recommendations at this time as to the extent of branch banking or limitations of branch banking, but ask leave to withhold such recommendations until some future meeting.

The Trust Company Division

(*Continued from page* 306)

said that we are no longer an institutional Division, but have become in fact a functional Division.

"This vast increase in membership bringing into our ranks so many newcomers has placed a heavy burden on the Division. We welcome them with open arms, but the task of assimilation and education is heavy. What specifically have we done not only to serve our older members, but to educate and encourage the newcomers in our field?

The Conferences Draw

"FIRST of all, we have held our Regional Conferences and our Mid-Winter Trust Conference in New York. The Fifth Mid-Continent Trust Conference was held at Detroit in November, and 225 delegates were registered. At the Eleventh Mid-Winter Trust Conference in New York in February, 960 official delegates were registered and over 1,400 attended the annual banquet of the trust companies of the United States, which is held in conjunction with this conference. At the third Southern Trust Conference held in Montgomery in April there were 139 registered and at the Eighth Regional Trust Conference of the Pacific Coast and Rocky Mountain States held in Seattle in August there were 161 official representatives.

"Thus, on the basis of the registration figures, 1,485 trust men attended the conferences held by the Division during the year, but we know that the total attendance was substantially greater on account of the attendance of attorneys, life underwriters, and other members of the public interested in our work.

"To assist further its members in the efficient conduct of their business, the Division through its committees has prepared and distributed text books on important and fundamental aspects of our business. From Mr. Young's committee has come the hand book on the Review and Survey of Trust Securities. From Mr. Stanton's committee on review of internal administration has come the recommended plan with forms to be used in checking the performance of trust duties. It is very difficult for the fellow who is running the department to know how the junior officers are handling the details of the particular trusts.

"Mr. Reynolds' committee has prepared a sales manual for trust service which has been very helpful in training new men, particularly new men going into the outside solicitation work. Our insurance trust committee has gotten out its fourth bulletin. The 100 Questions and Answers about life insurance trusts have been issued. Mr. Price has produced for us the 100 questions and answers on business insurance and business insurance trusts. Mr. Gilbert T. Stephenson, the incoming President of our Division, has prepared 100 questions

and answers about wills, estates, and trusts which is just off the press.

100,000 Copies

"IN addition to this, our own headquarters in New York have published and distributed the proceedings of the three Regional Trust Conferences held during the year, as well as the Eleventh Mid-Winter Trust Conference held in New York. All in all, the Division has produced and distributed eleven major publications during the year, of which there have been circulated to our membership nearly 100,000 copies.

"It is interesting, I think, in this connection that far more copies were sold than were distributed to our members free of charge. Of the total 100,000 copies distributed, approximately 40,000 were sent out to our membership free and 60,000 were sold. Those which were sold represent mostly additional copies ordered by members who had, of course, received one copy without charge.

"I think, perhaps, the activity of the Division which is generally thought by our members to have given them the greatest aid is our building trust service plan. This, as you know, is a compact, cooperative advertising service furnished at a nominal cost of $50 a year to trust companies and trust departments of banks. This service is carried on under the direction and supervision of our committee on publicity, of which Mr. Francis H. Sisson, vice-president of the Guaranty Trust Company of New York, is the able chairman.

"There are 620 banks and trust companies subscribing to this service. I think it might be interesting to visualize the scope of what this work is. Let me cite a few figures about it.

Helps Small Companies

"WE have done a gross business of $59,162.81. Our headquarters have received and filled 1,808 separate orders. We have furnished Association members with 431,623 trust booklets and folders and 5,479 newspaper mats. We have sent to our suscribers 5,866 large illustrated posters. I think the value of this service cannot be overestimated. It furnishes to the smaller trust companies, particularly those who could not maintain a large publicity department, publicity material and advertising of a character that they could not get in any other way.

"Through other sub-committees our Division is at work on other undertakings which we hope will be for the benefit of our Division. A committee is working — Mr. Theis' committee — on costs and charges, and when that work is completed it will be very valuable indeed as giving us a standard by which we may check what we are doing in our own departments.

"Then there is a committee working on a simplified trust accounting system, very largely for smaller trust departments. A committee on uniform trust nomenclature has begun the task of defining the meaning of the various terms used in describing trust service. Out of this work it is hoped will come a better uniformity in the terms, not only in the different parts of the country but in institutions in the same locality. This work is, of course, correlated with that of the committee on costs and charges.

"We have a new committee on fiduciary legislation which will work for a greater degree of uniformity in the laws of the various States and Federal Government which concern corporate trustees. This committee has a year of labor before it."

Germany's Foreign Loan Enigma

(*Continued from page* 358)

est and amortization would have precisely the same effect as an increase in our annual reparations liability. At present Germany has to pay for interest and amortization of loans a sum of about 1½ billion marks a year, a sum not much smaller than the annuity fixed at the Hague for the first years of reparations under the Young plan. This ought to make it plain that Germany would make a serious mistake if she were to borrow from abroad merely in order to meet some immediate need. In the end any such mistaken policy would merely depress the living standard of the German nation.

But there is another important consideration. It is sometimes mistakenly assumed that foreign capitalists are ready to lend Germany unlimited sums. That is not the case. On the contrary, if all official obstacles to borrowing from abroad were removed, the competition to borrow the limited sum which foreign capitalists are willing to lend would result in such aversion to German securities that the foreign capital market would in the end be closed to us. It may therefore be said that the restrictions which the German Government imposes on foreign borrowing have not really reduced the amount of possible borrowing. Were there no restrictions, the position of the individual borrower would indeed be different. But the total amount which foreign capitalists are willing to lend us would not be increased. The restriction system has therefore two advantages. First, it confines borrowing to productive purposes, and secondly by checking competition between individual

would-be borrowers it keeps down interest rates to a reasonable level.

To a certain extent this principle also applies to German borrowing at home. The home capital capacity is not unlimited. For this reason Germany cannot dispense with a certain amount of official control at home; and the German Loans Advisory Board, which is now about to be given a new form, cannot be done without. Were there no Loans Advisory Board with power to check borrowing, we should run the danger of having to face excessive credit demands by individual public bodies; and the consequence of this would be more onerous credit conditions for borrowers taken as a whole.

Recession Affects School Savings

(Continued from page 341)

stabilize personal money habits and no agency except the public schools can do the job as thoroughly."

DURING the year closing June 30, 1930, the number of schools affording opportunity for school savings was 14,611, in which were enrolled 4,817,606 pupils, of which 4,597,731 participated in school savings. Ninety-five per cent of the pupils enrolled were participants. Almost 2,000,000 participated each bank day, which ordinarily is once a week. The deposits amounted to $29,113,063.48, and the net savings at the end of the year was $7,690,529.68. The bank balances of the participants remaining at the close of this school year, if added to their balances at the end of previous years, amounted to the sum of $52,049,849.18. This sum does not include the balances of those who have withdrawn from school through graduation or otherwise. The percentage gain in the number of schools is 2.5.

Convention Calendar

Date	State Association	Place
1930		
Oct. 22-23	Nebraska	Omaha
Oct. 22-23	Nevada	Las Vegas
Nov. 7-8	Arizona	Tucson
1931		
June 22-24	Iowa	Waterloo

AMERICAN BANKERS ASSOCIATION

REGIONAL CONFERENCES

Nov. 13-14 Sixth Mid-Continent Trust, Indianapolis, Ind.

Spring 1931 Fourth Southern Trust, Charleston, S. C.

OTHER ASSOCIATIONS

Nov. 7 Tri-State Better Bank Management Conference, Minneapolis, Minn.

Stability the Investment Goal for Savings

(*Continued from page* 321)

Leaving aside for the moment the desirability from the standpoint of the bond buyer of purchasing a security which has no chance of improving its status by enjoying any unearned increment, as does a closed mortgage bond usually, and the security of which may on the contrary, be diluted by additional issues of bonds, the question arises as to the market situation which may develop for such bonds. If the first issue be moderate in amount and take place in a high bond market at a time when the company can make a very strong statement of property and earnings the bonds may bear interest at 4½ per cent and sell to the public around 97½. Subsequently, the company may acquire additional property and to pay for it sell in a tight money market 5 per cent bonds at 95. As both series of bonds are secured by the same mortgage, the 4½ per cent bonds at once sell down to approximately the same basis as the 5's with a heavy book loss to the original investor and at the end of the year he writes off his bonds to the new basis. It would seem that, however well secured the bonds may be, the investor can only feel comfortable about the book value of his open end mortgage bonds if they are purchased in a low bond market. Furthermore, the issuance of additional bonds is usually not based upon an equal contribution to capital by the junior security holders and especially by the holders of the common stock, but only upon cost of new property and ratio of bond interest to earnings available therefor.

While the growth and stability of earnings up to the present time have been noteworthy, a prudent investor may well consider the possibility that no tree grows to the sky and that the dependence upon the undisturbed continuance of the monopoly through the franchise and upon the necessity of generation and distribution from a central power plant may have elements of weakness as yet undisclosed.

Attention is not called to these phases of public utility financing through a desire to be critical or to minimize the contribution the companies have made to the prosperity of the country, but from a belief that they have not been given the consideration by investors to which they are entitled. There are, of course, a great many public utility bonds suitable for the investment of savings funds, bonds which enjoy the highest rating, and are comparable to the best railroad bonds. It is recommended that the investor familiarize himself with the laws of New York and Massachusetts regarding the investment of funds in public utility bonds and study the bond issues which have been made legal in those states. These laws were placed on the statute books only after a very careful study of public utility securities had been made. The purpose of these remarks is to emphasize the fact that this type of bond is much younger than railroad bonds and the industry has not had to endure any setbacks of moment in recent years.

It follows that the purchase of bonds of holding companies which obtain their revenues from dividends on stocks of operating companies which themselves have bonds outstanding involves, in the great majority of cases, a risk to which savings funds should not be exposed.

Investment in industrial bonds should be made with the greatest care. The best evidence of this can be obtained by referring to the ratings given industrial bonds by the statistical services. Owing to the wide fluctuations in the amount of business done by industrial corporations the bonds, however safe, are apt to move over a wide range in accord with the prosperity or depression of the industry. To put it another way, the well-established prosperous industries are paying off their bonds. Why buy the bonds of the others?

Speaking generally, as little as possible of savings funds should be placed in bonds, as much as possible should be invested in the stable mediums. The bond list should include some Government bonds; such an amount of bonds of the lesser governmental units as the taxation situation makes desirable and these should be carefully selected; railroad bonds and public utility bonds in about equal proportions. The time and thought necessary to come to a decision to buy bonds, especially if this is undertaken by a committee, generally comes up as an obstacle when the question of selling is concerned because of the unwillingness to go again through the process of purchasing other bonds with

the proceeds of those sold. In consequence, while there may be little hesitation about selling bonds that have not proved desirable, it takes a good deal of persuasion to induce the selling of bonds about whose security there is no question, but which because of their approaching maturity or because they are selling above other bonds of their class, or because they were originally purchased at too high a figure, and have after a long period again reached and possibly passed that original purchase price, are manifestly a desirable sale. This is a phase of the handling of savings funds which is coming to be recognized as an increasingly important one. When dealing in a fluctuating medium like bonds, the average cost of the various lots of bonds is important. So important is it in fact that the manager of a fund invested in bonds is well advised if he makes it his business to "fight his averages" to sell some or all of one lot of bonds when they seem unduly high in order that he may buy bonds of the same issue back at a considerably lower price when the market has receded. In this connection it is often possible to sell to a sinking fund a round lot of bonds at a price above the current market and cover gradually at a lower price in the market.

It may prove that near the top of a high bond market, it is better to sell long term bonds and buy short term for the purpose of realizing the profit on the long term bonds. One has not made a profit in his bonds simply because they are quoted at a higher price than was paid for them, until he has sold them. To ride them up and down merely exhilarates one at one time and depresses him at another. If "fighting the average" is the rule of procedure a banker will always want to have a considerable amount of bonds maturing that he may take advantage of opportunities as they present themselves. As a rule, a banker cannot sell "blue chip" bonds in a high bond market and buy other "blue chip" bonds to yield appreciably more. He can only guard against decline by selling the "blue chip" long term bond and buying the "blue chip" short term bond and in so doing the short term bond may not yield so much as the bonds he has sold. However, the short term bond holds its price approximately and the long term bond may be available at five or ten points less when the short term bond matures.

Will Preach Thrift

The Savings Bank Division is planning a country-wide campaign to popularize the savings account as an investment. The work will be carried on by the Committee on Education, Advertising and Publicity of the Division through material distributed to subscribers.

Committees and Commissions

(*Continued from page* 349)

Frank M. Totton, second vice-president, The Chase National Bank, New York, N. Y.

P. R. Williams, vice-president, Bank of Italy National Trust & Savings Association, Los Angeles, Cal.

C. F. Zimmerman, secretary, Pennsylvania Bankers' Association, Huntingdon, Pa.

Secretary—Richard W. Hill, 110 East Forty-second Street, New York, N. Y.

Public Relations Commission

William G. Edens, vice-president, Central Trust Co. of Illinois, Chicago, Ill., chairman.

W. R. Morehouse, vice-president, Security-First National Bank, Los Angeles, Cal., vice-chairman.

Alan T. Bowler, vice-president, North Carolina Bank & Trust Co., Greensboro, N. C.

Oscar L. Cox, vice-president, Bank of Italy National Trust & Savings Association, San Francisco, Cal.

J. Arthur House, president, Guardian Trust Co., Cleveland, Ohio.

Ben Johnson, president, Commercial National Bank, Shreveport, La.

Reuben A. Lewis, Jr., second vice-president, Continental Illinois Bank & Trust Co., Chicago, Ill.

W. E. Purdy, vice-president, Chase National Bank, New York, N. Y.

George O. Walson, president, Liberty National Bank, Washington, D. C.

Director—Gurden Edwards, 110 East Forty-second Street, New York, N. Y.

Five Members at Large of Executive Council

Thornton Cooke, president, Columbia National Bank, Kansas City, Mo.

Charles H. Deppe, vice-president, Fifth-Third Union Trust Co., Cincinnati.

John H. Dexter, president, Society for Savings, Cleveland, Ohio.

Charles L. Farrell, president, National Newark & Essex Banking Co., Newark, N. J.

Allard Smith, executive vice-president, Union Trust Co., Cleveland, Ohio.

Vice-Presidents for Territories

Alaska—John Reck, president, First National Bank, Juneau.

Canal Zone—George S. Schaeffer, manager, Chase National Bank, Cristobal.

Hawaii—A. N. Campbell, president, Henry Waterhouse Trust Co., Honolulu.

Philippine Islands—N. E. Mullen, president, Peoples Bank & Trust Co., Manila.

*Porto Rico—

*Elected by members in attendance at Porto Rico Bankers' Association convention, which has not yet been held.

Vice-Presidents for Foreign Countries

Canada—Sir John Aird, president, Canadian Bank of Commerce, Toronto, Ont.

China—Frank J. Raven, president, American-Oriental Banking Corporation, Shanghai.

Cuba—R. Arosarena, manager, Royal Bank of Canada, Havana.

England—O. Berntsen, general manager, Bankers Trust Co., London.

France—E. S. Chappelear, vice-president, Bankers Trust Co., Paris.

Isle of Pines—John A. Miller, president, National Bank & Trust Co., Nueva Gerona.

Mexico—Jose A. Signoret, president, Banco Nacional de Mexico, Mexico City.

Newfoundland—B. C. Gardner, manager, Bank of Montreal, St. Johns.

Panama—A. Delvalle, president, Banco Nacional, Panama.

Resolutions of 56th Convention

(Continued from page 338)

additional responsibilities and functions as the only compulsory members of the Federal Reserve System and as such have been protected under Section 5219 of the Revised Statutes of the United States from discriminatory taxation by the states; and

Whereas, both national and state banks have joined with the Congress of the United States, from time to time in furthering amendments to Section 5219 to enable the states to enact equitable and adequate taxation laws, and, pursuant to such policy, H. R. 12490 to amend Section 5219 is now pending before the Congress; and

Whereas, H. R. 12490 is so framed as to encourage the measuring of the burden of state taxation of banks by income as distinguished from capital or surplus thus encouraging proper capitalization and the accumulation of surplus by banks; and

Whereas, this Association, through its Special Committee on Section 5219 has approved said H. R. 12490 as a solution of certain existing problems of taxation of banks; now, therefore, be it

Resolved: That this Association hereby ratifies the action of its Special Committee, in approving amendments to such section in the form of H. R. 12490 now pending before the Congress of the United States, and hereby authorizes such Special Committee to support said bill with such changes or substitutions, if any, as such committee may deem desirable in preserving or such as may not prejudicially affect the equitable and non-discriminatory taxation of national banks or their shares of stock, and be it further

Resolved: That the Special Committee be instructed to oppose any other or further legislation whether in substitution for or by amendment of said Section 5219 that does not provide that taxes on the shares of national banks shall be measured by taxes on competing moneyed capital, or, in lieu thereof, does not provide a form or forms of taxation embodying the following principles:

(1) That no more than a reasonable proportion of the net income of national banks be absorbed by taxation.

(2) That other financial institutions in competition therewith be taxed by the same method and at the same rate as national banks.

(3) That the aggregate burden of taxation of national banks, however imposed, shall be no greater, in proportion to their net income, than is the aggregate burden of taxation of mercantile, manufacturing and business corporations of a general character in proportion to their net income.

(4) That means be established by law by which discrimination in violation of the foregoing principles can be readily demonstrated.

(5) That the real estate of banks shall be separately taxed to the same extent, according to its value, as other real estate is taxed and that taxes paid on real estate shall be disregarded in computing the relative tax burden on banks and on other property or business, except as a deduction from earnings or profits.

Be it further resolved: That such Special Committee be and is hereby directed to act in accordance herewith with full power to otherwise protect banks from discriminatory taxation as it may deem necessary.

The members of the Resolutions Committee were:

Max B. Nahm, vice-president, Citizens National Bank, Bowling Green, Ky., chairman.

John McHugh, chairman of the Executive Committee, Chase National Bank, New York, N. Y., vice-chairman.

Edmund S. Wolfe, Vice-President, National Bank Division, president, First National Bank & Trust Co., Bridgeport, Conn.

A. C. Robinson, Vice-President Savings Bank Division, president Peoples-Pittsburgh Trust Co., Pittsburgh, Pa.

M. Plin Beebe, Vice-President, State Bank Division, president, Bank of Ipswich, Ipswich, S. D.

Gilbert T. Stephenson, Vice-President, Trust Company Division, vice-president, Equitable Trust Co., Wilmington, Del.

Henry J. Mergler, Vice-President, American Institute of Banking, assistant treasurer, Fifth Third Union Trust Co., Cincinnati, Ohio.

H. G. Huddleston, First Vice-President, State Secretaries Section, secretary, Tennessee Bankers Association, Nashville, Tenn.

H. Lane Young, chairman, Agricultural Commission, executive manager, Citizens & Southern National Bank, Atlanta, Ga.

Hal Y. Lemon, chairman, Bank Management Commission, vice-president Commerce Trust Company, Kansas City, Mo.

Fred I. Kent, chairman, Commerce and Marine Commission, director, Bankers Trust Company, New York, N. Y.

R. S. Hecht, chairman, Economic Policy Commission, president, Hibernia Bank & Trust Co., New Orleans, La.

John H. Puelicher, chairman, Public Education Commission, president, Marshall & Ilsley Bank, Milwaukee, Wis.

Charles Cason, chairman, Public Relations Commission, Charles V. Bob & Company, New York, N. Y.

Thornton Cooke, chairman Committee on Taxation, and chairman, Special Committee on Section 5219, president, Columbia National Bank, Kansas City, Mo.

Thomas B. Paton, General Counsel, American Bankers Association.

Walter Lichtenstein, executive secretary, First National Bank, Chicago, Ill., is secretary.

Commercial Bank Competition for Savings

(*Continued from page* 354)

tices developed during periods of credit scarcity when bankers were in a position to drive a good bargain. Fourteen per cent of the bankers reporting support this attitude. But 86 per cent take an opposite stand. In any event, bankers appear to be thoroughly wedded to the practice as may be evidenced by a vote of 95 per cent to 5 per cent in affirmation of the belief that such obligatory deposits will continue to be demanded even in a period of greater credit supply and that the practice of demanding them will not pass into disuse.

"Nevertheless it is quite possible, in spite of this overwhelming vote, that many such bankers have forgotten the days of 1916 when superabundant credit caused bankers to seek loan outlets with little or no regard for the maintenance of compensating balances. Those were extraordinary days and may never be seen again to such an extent. But it must not be forgotten that since that time our pioneer days of credit scarcity have faded into near obscurity because we have changed from a debtor to a creditor nation in world affairs. Where obligatory deposits are maintained, 10 per cent of the banks pay interest on them and 90 per cent do not.

Trend Toward Mingling

"FINALLY, 96 per cent of the banks answering the question are of the opinion that the tendency of commercial banks to engage in the savings banking business along with their commercial activities—and conversely of savings banks to engage in commercial banking —will continue until there will be left few, if any, of the old style of banks doing but one kind of business.

"The conclusions to be derived from the answers to the questionnaires are fairly obvious. As time goes on, savings banking proper may well expect greater and greater competition from so-called commercial banks. The old aristocrats of banking, the simon pure commercial banks and, with a few exceptions perhaps, the banks for savings only are plainly going the way of the dodo.

"This movement will be facilitated by the development of branch banking. The convenient geographical location of branch offices gives commercial and departmental banks operating branches a tremendous advantage over the single-charter, single-location savings institution. This is particularly exemplified in California where the branch banks are preponderantly savings institutions.

"There appear to be few if any practices enjoyed by commercial banks which savings banks should adopt. There is at least one they should try to avoid, the practice of waiving withdrawal notice.

"The gradual establishment of this custom of waiving notice requirement and its effect of changing what are properly time funds into demand deposits is worthy of more than passing notice. It unquestionably indicates that larger cash reserves should be carried by savings banks and, where large individual deposit lines are maintained, some provision for prompt rediscounting of secondary reserve paper is worth considering. Heretofore, Federal reserve membership on the part of savings

banks has been deemed both unnecessary and inept. It is losing that character by the practices of considering all savings deposits as demand deposits and of including acceptances and commercial paper in savings banks' investment portfolios.

"Competition for deposits principally and, secondarily, the habit of commercial banks of thinking in terms of demand deposits are no doubt responsible for the obsolescence of the requirement. But no matter whether the notice of withdrawal requirement was originally established as a result of bitter experience or as a provision of wise forethought it still has value. Its passing is a regrettable thing in many ways. That it can be re-established seems doubtful. If it ever is, it is to be hoped that the banking profession as a whole will not be in any more of a hurry to disregard it again than it now is to loan money on unimproved property.

"As for competition arising out of the practice of paying interest on accounts subject to check, savings bankers may not with propriety or right object to it for in so doing they would be taking the dubious position of telling commercial bankers how they should conduct what is their particular business. If the latter choose to pay top interest rates on demand deposits, the business is theirs and so is its frequent unprofitableness. The crime, if it be one, provides its own punishment. Except for occasional sporadic outbursts when an undue amount of normally time funds are temporarily diverted from savings to commercial accounts because of the high interest rates checking accounts may then be drawing, it is felt that ordinary and special interest bearing checking accounts do not constitute any important threat to savings banking.

"Invasion of the field of savings proper by commercial banks is a more serious matter than their payment of interest on demand deposits. It undoubtedly takes from the savings banker a considerable share of the business he feels is rightfully his.

"That is not because he thinks he is entitled to a monopoly of the time fund business but it is because he feels he is better fitted to carry on the activity. For in true savings, where there is harmony of asset and liability, there is none of the incongruity which exists in the commercial banker's practice of exposing savings deposits to the hazards of commercial banking.

Depositors Do Not Know

"WERE the latter situation thoroughly understood by time fund depositors, it is probable that they themselves would see to it that their funds were held in institutions which practice proper segregation of assets and liabilities. As it is, depositors may express that choice now only in points large enough to afford true savings facilities. In rural sections, where savings banks do not exist, time depositors are forced to patronize commercial banks which accept their deposits without the safeguard of segregation.

"This anomaly the savings banker may not point out. Common decency and knowledge of the perils of civil war within the ranks of banking forbid him from using the fact as an advertising weapon.

"The savings banker, however, is not without his resources in the competition. One of them is presented involuntarily by commercial banking itself. The indiscriminate mixing of savings with commercial banking does not always pay. That is revealed in the report of the Federal Reserve Bank of Boston which, surveying the earning statements of 214 of its commercial bank members, states that 'the earning capacity of a bank appears to decline as the proportion of its time deposits increases.'

"It is revealed in the questionnaire and a matter of common knowledge that this proportion is increasing in a majority of instances. It promises to continue to do so. That being the case, there is no doubt a limit to the ability of commercial banks to compete in the time fund field."

A Flying Start

The Savings Bank Division has evolved a plan whereby it is hoped to make the work of the Division more efficient and comprehensive. In effect, the new schedule contemplates the launching of important preliminary work at the Spring Meeting so that committees can get a flying start at the Annual Convention. The President of the Division will appoint chairmen of sub-committees at the Spring Meeting, who will have the benefit of six months of study and experience before getting down to work.

Condition of Business

(Continued from page 366)

the purchasing power of the 1926 dollar was $1.19.

During the past month, however, a number of important commodities have fallen to new low prices, not only for the current year but in many cases the lowest since pre-war and even prior to 1900.

Taking a list of twenty-five commodities that are actively traded in in the New York wholesale markets or exchanges and quoted daily in the *New York Times*, ten made new lows in September. The following table shows the high and low prices during the current year and the months in which they were established, from which the extreme and rapid decline may be seen:

RANGE OF PRICES, 1930

	Highest		Lowest	
Wheat	$1.46½	Jan.	$0.95½	Sept.
Corn	1.20⅛	Aug.	.90⅛	June
Rye	1.11⅜	Jan.	.50⅜	Sept.
Oats	.58	Jan.	.45½	July
Flour	6.90	Jan.	4.75	Sept.
Coffee	.10¾	Jan.	.06½	Sept.
Sugar	.0520	Jan.	.0435	Aug.
Butter	.40½	Aug.	.32½	May
Eggs	.46½	Jan.	.19½	July
Lard	12.45	Sept.	9.70	June
Pork	32.00	Apr.	26.50	Jan.
Beef	29.00	Jan.	19.00	Sept.
Steel billets	35.00	Jan.	31.00	June
Iron	22.26	Jan.	19.76	June
Lead	6.25	Jan.	5.15	June
Copper	18.00	Jan.	10.12	Sept.
Zinc	5.45	Jan.	4.10	July
Tin	40.55	Jan.	28.30	Sept.
Cotton	17.55	Jan.	10.25	Sept.
Printcloths	.07	Jan.	.04¾	Aug.
Silk	4.85	Jan.	2.35	Sept.
Crude oil	1.30	Jan.	1.11	Feb.
Rubber	16.50	Feb.	7.56	Sept.
Gasoline	.143	Apr.	.123	Feb.
Hides	.16½	Jan.	.13½	July

Even these figures fail to fully measure the decrease in returns suffered by the actual producer, who does not receive these prices but a considerably lower figure after freight, marketing expenses and duty, if any, have been deducted. Raw sugar is selling in Cuba at under one cent per pound for the first time in history. Wheat is selling in primary markets under 80 cents per bushel—the lowest in thirty years.

Rubber is selling at 7½ cents per pound, whereas the 1913 average was 82 cents. Copper has just been quoted at 10 cents, against a 1913 average of 15½ cents, zinc at 4¼ cents against 5½, tin at 28 cents against 44. Cotton futures are selling under 10 cents in New York, which means that the Southern grower receives only 7 or 8; the 1913 New York price averaged 12 3/4 cents.

Money Abnormally Easy

WITH a strong banking situation and slack demand for credit, money rates have continued easy and present a strange contrast with those prevailing as business entered the final and disastrous quarter of last year. The quotations in the New York market were as follows:

	September 30 1930	September 30 1929
Call loans	2	10
Time loans, 90 days	2–2½	9–9¼
Time loans, 6 months	2½–2¾	9–9¼
Commercial paper, best	3	6¼
Bank acceptances, 90 days	1⅞–2	5⅛–5⅜
F. R. B. rediscounts	2½	6

A transformation has taken place in the condition of the member banks during the past year. Total loans and investments which on Sept. 24 amounted to $23,299,000,000 were $617,000,000 above the corresponding period of a year ago, but there was an increase of $947,000,000 in the investments, offset by a decrease of $330,000,000 in loans.

Loans against securities on this date amounted to $8,461,000,000 and slightly exceeded the $8,453,000,000 "other loans," which are considered representative of commercial borrowing; the former increased $741,000,000 during the year while the latter decreased $1,071,000,000. In the investment account, holdings of United States Government securities increased by $253,000,000 and other securities increased $695,000,000. Borrowings from the Federal reserve banks amounted to the almost negligible figure of $33,000,000, or $655,000,000 lower than one year ago.

It is commonly recognized that there exist relatively wide variations in interest rates depending upon the class of loan and also upon the locality. The rates quoted for call money in the New York market, for example, have little relation to the price of money to the farmer in Iowa or the cattle raiser in Wyoming. The subject has become one of active interest at present, for the reason that the unusual changes in banking and credit conditions that have taken place during the

past year have served to temporarily widen the spread between the central markets and the outlying districts. This is in accord with the experience of the past, which has shown that the changes in underlying conditions are felt first by the banks in the larger cities and from them spread to the smaller banks throughout the country at large. The loans and investments, and their corresponding deposits, fluctuate much more in the case of the city banks than the country banks, and the probable trend, based on precedent, will be toward a lowering of rates and a much more rapid purchase of investments by the banks outside of the large centers.

The Security Markets

THE renewed liquidation in the stock market during the latter part of September carried prices down to or below the previous 1930 lows established in June, depending on which particular group of "averages" is used as an index. Many individual issues have broken well below the June lows and even under the lows made in the crash last November, although it must be remembered that the condition of business then and the immediate outlook would warrant much better prices at that time than would the conditions and outlook today. On the other hand, many of the November lows are not likely to be duplicated for the reason that they occurred during a trading activity bordering on chaos, when it was impossible to report the transactions over the tickers and only a limited number of traders other than those actually on the floor of the exchanges were in a position to know the actual prices. The present decline has been severe but has not been accompanied by confusion and lack of supporting orders at any price which permitted ridiculously low prices to be momentarily established last fall.

By way of contrast, conspicuous strength has been shown in bonds and high-grade preferred stocks. That such price advances have been caused, at least in part, by switching operations on the part of many investors, previously interested mainly in equity issues, is a reasonable inference. This is not surprising, for considering that prevailing dividend rates on many stocks must be judged of questionable permanency, the number of equity issues which are attractive on the basis of current return is still comparatively small, and investors interested strictly in income still find bonds and preferred issues better suited to their needs than the majority of junior shares.

Savings Banks Deposits

THE steady accumulation of funds in the hands of savings institutions, which would include savings banks, the time deposits of commercial banks, and insurance companies, has continued to carry bonds upward for a ten months' period with scarcely an interruption. Demand on the part of these institutional investors, which have long experience in investment and are governed by strict standards and legal restrictions as well, has first carried upward the high-grade issues and is now turning, with less enthusiasm, to the second grade issues.

Some of the savings banks report extreme difficulty in obtaining bonds that will enable them to make a profit on their deposits. A year or so ago many of the savings banks raised their rate of interest so as to compete with the call-money market and the attractiveness of stocks, and now they are announcing reductions as necessary to keep their operations on a sound basis and prevent their being forced into sub-standard issues. They have undergone a veritable deluge of deposits in the past several months, part of which represented the ordinary savings of working people who had suffered bitter experience with margin trading, investment trusts and stocks generally. This has also been the experience of insurance companies, which find that an insurance policy has regained much of its former popularity as a means of saving and an invaluable source of funds in times of trouble.

But the savings banks have also been the recipients of deposits by wealthy people who became dissatisfied with the low rate of interest offered by commercial banks and opened accounts for the maximum amount permitted in one or possibly a long list of savings banks, even going so far in some cases as to open several accounts in a single bank in the names of members of their family or in fictitious "trust accounts." In New York, where the law requires that savings banks limit any one account to a maximum of $7,500, one of the leading institutions has just announced that not more than $1,000 may be deposited in any account during a three months' period. Savings banks are concerned over the present abnormal money situation, not only because of the question of obtaining bonds that will yield a profitable return, but because of the possibility that some of their newly-acquired depositors who are people of large means and are using the savings banks only for the temporary employment of funds to advantage until they can be switched back into the stock market, might choose to withdraw these deposits suddenly and cause the banks embarrassment and losses similar to those experienced only a year ago.

The End of the Depression

(Continued from page 333)

way back as far as we have any business records about these things, as careful an analysis as we are able to make of those records back for 150 years since this nation came into existence, proves, I think, conclusively that every one of our major business depressions has been an international business depression. The minor ones we manage ourselves; in the major ones we have cooperation.

Not only are these major business depressions international, but they are invariably accompanied by severe declines in prices of commodities and those commodity price declines are international, and particularly they are declines in the fundamental commodities that are widely felt in international trade.

I am making no alibi. I heard somebody say here the other day with regard to previous business depressions, that all good citizens had, in other years, noted that they were caused by the Democrats, but that in the case of this business depression we were glad to learn that it was international.

It Was Inevitable

THE real fact is that all major business depressions are international and that does not in the least relieve Americans from a serious responsibility in connection with this one. If I had the time I think I could clearly indicate that the things we were doing in our great record-breaking speculative era that we staged last year, and the year before, were inevitably destined to bring about a great international depression.

In any event, it is here. We are then having the characteristic price declines. They have become serious. It has been long. It has been bad and it has had a relapse. Now the question is: What is going to happen next?

My own impression about it, which is now more than an impression, is that I really, genuinely think that we are in the latter stages of this depression, partly for the reasons that I have mentioned, partly because of comparisons between this period of bad business and previous ones.

No two business cycles are ever the same. All business cycles are strikingly similar. Nothing is ever duplicated. Certain things often happen and certain relationships always are worked through. In their working through there is over and over again a curiously uniform degree of time required.

If one measures these last seven major depressions that I have been talking about in this country from the period of prosperity, where business finally went over the top and started without subsequent recovery on down to the bottom—if one measures from that top point down to the bottom point of the depression he finds for those seven major depressions that the number of months required in the decline was twelve—that was forty years ago—the next time it was twelve, the next time it was twelve months, and then, in the very violent panic of 1907, it was ten months and the next time it was fifteen months and the next time it was twelve months and this time it has already run, as I have said, fourteen months.

Near the End

THAT is not pure chance. There are certain spans of time required for these complex processes to work their way through. I think we have basic evidence backed up by such figures as these to indicate that those processes are working their way through toward a completion now.

My own picture of it is that we shall stay on this low floor of this business depression until about the turn of the year. I do not think business is going to get worse. I do not think it is promptly going to get much better. I think it is going to start its real and definite recovery just as that period starts, in the beginning of 1931, when those potent stimulants of better business, building construction and automobile manufacture, normally receive the maximum of their seasonal stimulus.

If they are going to come up appreciably at all next year we are going to see it there in the spring of the year. There are special and valid reasons why such things as new building construction and the manufacture of automobiles are potent helps toward a robust and definite business recovery. I do not think they are going to be here in great and exceptional volume next year, but I think with the stimulus that comes from them and with the fact that we have been growing very short indeed on new building and manufacture of automobiles this year there will be enough of a start to come out of them in the spring of 1931 to start and carry forward a real and endurable business betterment.

By the End of 1931

MY own picture of that is that it will not be very vivid, that we shall not go mounting back quickly and easily to any renewed period of prosperity, but rather that by the final part, the closing months of 1931, business will once more be back to what the statistician calls "normal."

What the statistician calls "normal" is not what the business man calls "normal." The business man calls "normal"

the conditions that prevailed in this country in the first and second quarters of 1929. He will not admit that he does but in his mind the recent high point is always to the American business man "normal" for business.

The statistician, on the other hand, when he says "normal" means a condition of rather discouraging slow business, about half-way between the bottom of depression and the peak of prosperity. I think it is that kind of a "normal" that we may hopefully look forward to reaching by the end of 1931.

Studying this longer series of depressions that I have been discussing, I have been particularly interested, because of what I have to do in banking policy, in watching what happened to bond prices in all of these successive business cycles. They always rise, of course. They rise in these periods of easy money, of low interest rates. I have not found an instance yet in which that general advance in the types of high grade corporate securities has come to an end in one of these depression recovery periods before business got back to that statistical "normal" that I mentioned.

Forecasting Bonds

SOMETIMES they run distinctly further than that, and there are other and more complicated ways to indicate, to discover when the probable termination of the advances comes. But one thing we can think of with a good deal of confidence, is that good bonds, such as banks hold, tend in general to keep on advancing in market price until business gets back to its statistical "normal" in one of these periods of recovery following depression.

If a banker is interested in that, there are at least two trustworthy indicators of the swings of general business that are easy and inexpensive to follow. One of them is the business index of the *Times Annalist*, which is now running along very far below normal, and I should be quite willing to stand here and say that as long as that index line does not get back to its normal, which is plainly marked on the chart that they publish every month, one need not hurry to sell bonds and take profits.

There is another one, published by the Standard Statistics Company, from month to month, which performs very closely in the same way as the one in the *Times Annalist*. I should make the same kind of statement with regard to the *Standard Statistics*. Some have access to the confidential monthly reports of the American Telephone and Telegraph Company, which is probably one of the best of all of these indices. Until that one gets back to normal one may rest thoroughly without anxiety about bonds because in all that period, and very likely for considerably more than that period, their tendency will, in all probability, continue to be a rising one.

I venture to make this one fairly confident prophecy about next year: It seems to me entirely probable that the general trend of business activity in 1931 will be a progressively rising trend, and that we may confidently look forward to definite and robust gains in savings during that period because I strongly suspect that they are going to act this time without violating the characteristics that they have shown in this long series of previous business depressions through which we have safely passed, and from which we have always emerged to new periods of prosperity.

Radio and the Trust Idea

(*Continued from page* 309)

000,000 on the plot. It will not be done as a Rockefeller Foundation—although he would not spend the money if he did not believe in the project—but so that the great radio family can congregate there with a plaza, a radio forum, traffic under the streets for buses, pedestrians and the subways; much greater than the Grand Central Station in New York has as an underground passage, room for thousands of automobiles. That should be completed within two years, my friends, and 250,000 people a day will be coming into that great plot to congregate and see, and millions to listen today, and tomorrow to see and listen, both the ear and the eye.

"I see the talent of the whole world coming from foreign centers to our doorstep—America. I see the young Americans who will be the great artists of the future because of the radio, the youngsters who will be the great composers of the future. I see the old school fading away, as the old opera is sure to fade away and as the new will come on.

"What a wonderful thing for America, and what a wonderful thing for the world! Radio, the central control board of this all, will carry first the music, the voices, to the whole world and into the homes of everyone. Then will come the vision into your homes. There will be culture, art, entertainment, all in one great radio center and in every home in this country.

"Is that not a picture to startle you? It startles me. Do you not realize how all of us working in this have no sleep at night, are worrying about the future and wondering if we can make this a thing of service rather than a thing of destruction? Let me say to you that to the best of my ability and with the finest advice that I can obtain, which I shall follow, we hope to develop for the world the finest of culture, entertainment and public information."

Savings Bank Division

(*Continued from page* 313)

cumulated in the so-called savings accounts—the use of that money is a subject that needs the earnest consideration of every one engaged in the banking business."

Mr. Stephenson said:

"During the next year I hope that we may stimulate and inspire the large industrial and working classes of this country to be more thrifty. I have asked Mr. W. R. Morehouse to outline a program that we could put through, not only for the Savings Bank Division, but for all the various divisions of the American Bankers Association, so that we could have an unusual activity during this coming year in an endeavor to spread the gospel of thrift. The outline that Mr. Morehouse has made of his plan is wonderful. It will be presented at the proper time in the proper way to all of the men engaged in this very commendable work. I ask your undivided support for it.

Faces Active Year

"I HAVE taken a very keen and active interest in the Savings Bank Division of the Association for more than twenty-one years. I am really a product of the Savings Bank Division. It was the first group of men that I met when I attended the first Convention of the Association. I have always felt that as long as I was with the Association I wanted to stay with this Division, keep my affiliation with it. It was my first love and during the next year of my administration I shall try to impress upon everyone that I shall do everything possible to advance the interests, not only of the Savings Bank Division, but of the great American Bankers Association."

The Division approved the report of the Resolutions Committee, part of which had to do with the purpose of savings and the relation of savings to an economic condition such as has existed during the past year. The Division was urged to call the attention of all bankers to the necessity for impressing their respective communities with the value of thrift. Bankers, said the resolution, should lose no opportunity "to drive home the fact that there is no substitute for a savings account."

Mr. McLanahan asked President-elect Robinson to describe the work of President Hoover's Home Planning Committee, of which Mr. Robinson is a member.

The latter said that the committee had held one meeting in Washington but that the work of organization was in a preliminary stage and would take some time to complete.

INDEX TO ADVERTISERS

WHAT DO YOU THINK?

Being a more or less personal talk between the EDITOR *and the* READER

"Carried Unanimously"

There are many good souls who believe in direct action. One of them was a banker who at a state convention listened in amazement while one of the invited speakers made vehement address full of controversial and debatable matter, all of which he decided as he went along, to the liking of himself and his political party.

When the speaker had finished

the direct-action banker arose and said in substance:—

"Mr. President, as this is a political speech and as we do not deal in politics and are not a political body, I move that the speech be not made a part of our proceedings."

And his motion was unanimously carried—but the speaker is still making political addresses!

Sharps from the F. A. A.

There was many a nugget of wisdom thrown out at the convention of the Financial Advertising Association in Louisville, Ky.

Said Earnest Elmo Calkins, president of Calkins & Holden, advertising agency of New York:

"I foresee a time when the banks collectively will be the largest group of advertisers in the country because they have the most to say. What they sell affects most people. What they do affects most businesses because people have confidence in them, and their statements about business matters have weight because the bankers, in spite of the reluctance with which they came to advertising, are intelligent men able to reason about business more philosophically than the average dealer or even the average manufacturer, and because they have such a wealth of facts at their disposal from which to deduce conclusions."

Reader: This page was designed for you—to give you a chance to express yourself in your own natural way instead of through a set dissertation of some subject close to your heart.

Buzz for the note book on which your thoughts are indited, give expression to that thought which so long has been floating around in your consciousness, and mail it to us.

Even if it is only five lines we will be glad to welcome the little stranger.

Said H. A. Lyon, advertising manager, Bankers Trust Co., New York:

"The banker is not a school teacher, but if he uses his imagination and his vision, he has enough material at hand or available so that he can contribute mightily to the success of his customers, and contributing mightily to the success of his customers means that he contributes directly and indirectly to his own success. We agreed, I think, that banks prosper as their customers and their community prosper and the banker must cultivate an enlightened viewpoint, the use of his imagination and a vision which, while apparently unselfish, is in the last analysis the height of selfishness."

Speaking on "The Part of the Bank in Community Development," Don G. Mitchell of the Niagara Hudson Power Corporation, New York, gave this advice:

"Play the game according to the rules. Never buy an industry, and never bring an industry into your community unless it economically belongs there. If you do it will turn out to be a boomerang and you will be the one to get smacked in the end.

"Cooperate. Cooperate with everyone that wants your help. With your Chamber of Commerce, with your railroad, with your power company, with the other banks in your community. It is safer to go according to the proverb 'two heads are better than one' than to worry about 'too many cooks spoiling the broth.'"

But Wealth Increases

From the letter of one of our correspondents we quote the following:

"I am over three score and ten and have spent very many years as president of a country town bank, with the dream of my life that if I promoted good roads, consolidated schools and furnished the people money at a reasonable rate of interest, they would prosper. For many years I have been a county commissioner devoting much time to the construction of roads and I am given credit for starting consolidated schools in our county, but now in my old age with good roads, good schools and a bank with capital sufficient to take care of the local needs of the community, I find the people poorer than they were some 25 years ago when I started this line of work."

How can this be?

The total national wealth of the United States in 1904 as published by the Bureau of the Census was $107,104,192,410 whereas the total national wealth of the United States for 1922 was $320,803,-862,000.

The per capita wealth in 1904 was, according to the same authority, $1,318, whereas in 1912 it was estimated at $2,918.

Read and Reflect

For weeks prior to the American Bankers Association Convention there has been speculation over the probable trend of President Hoover's address. The peculiarity of the times, and the rare spectacle of the President of the United States addressing himself solely to Capital combined increased interest and expectancy. Now in this issue of the Journal we have the address itself, an unusual document even among Presidential papers. Even for those who had the good fortune to hear the President's voice, the address is worthy of perusal—and reflection.